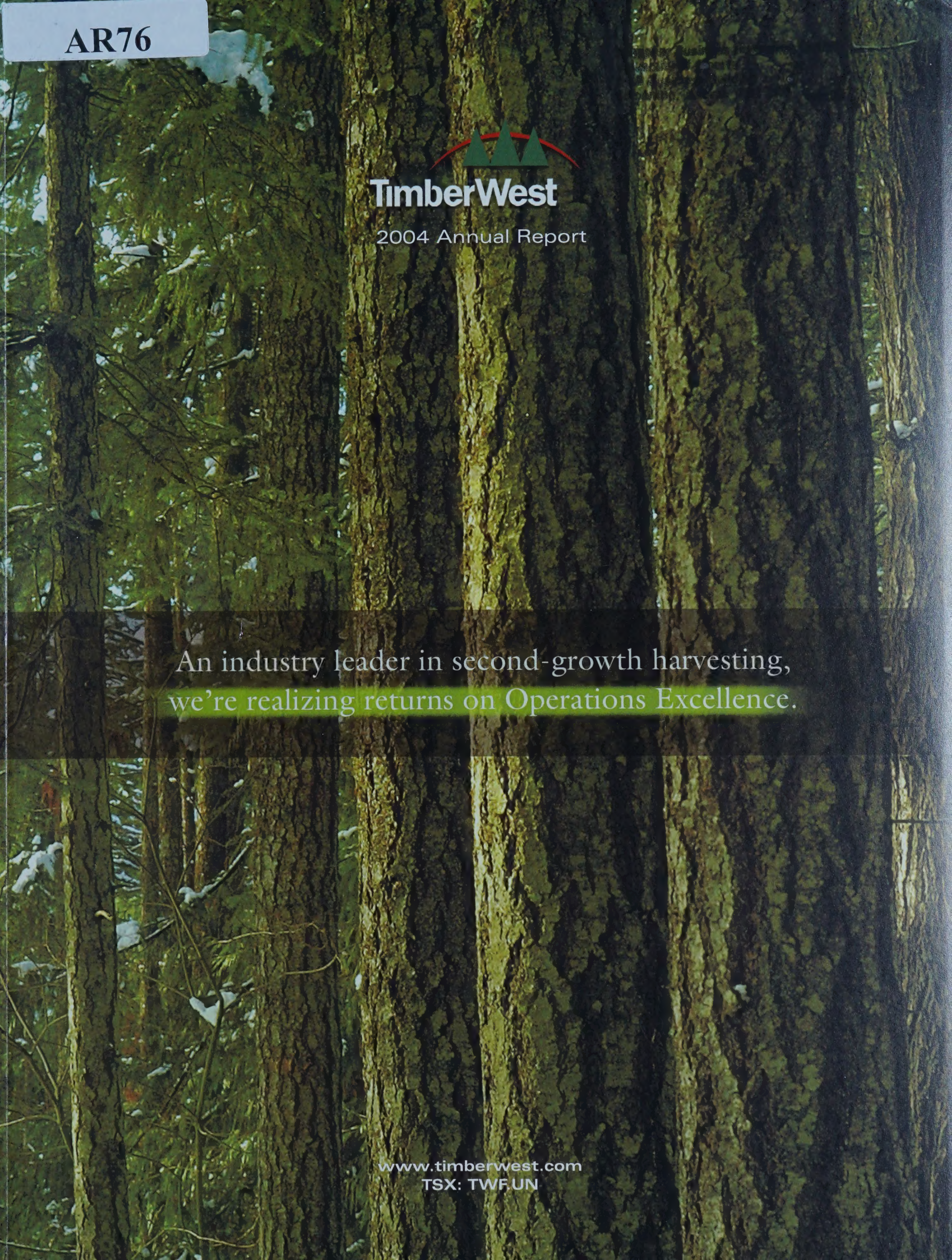


TimberWest

2004 Annual Report

An industry leader in second-growth harvesting, we're realizing returns on Operations Excellence.

www.timberwest.com
TSX: TWF.UN

Contents

TimberWest assets

TimberWest Forest Corp. is the largest owner of private forest lands in Western Canada. It runs fully contracted harvesting operations, leads the industry in second-growth harvesting and sells most of its log production on the open market, which provides considerable flexibility to meet market opportunities. The sale of logs accounts for more than 70% of the Company's revenue. The Company's private timberlands include about 6,000 hectares of properties that are progressively being made available for higher-value uses.

Private lands

- 334,000 hectares, mostly located on Vancouver Island. The majority of sites support forests of Douglas fir, a premium species used for structural purposes.
- TW applies rigorous environmental and conservation practices for wildlife and water quality protection and a wide range of other conservation goals.
- These lands support a long-term (50-year) sustainable annual harvest of 2.5 million m³ of logs.

Public lands

- One renewable and long-term tree farm licence and several timber licences.
- Provide the right to harvest 0.8 million m³ of logs per year.

Second growth

- TimberWest leads the industry in second-growth harvesting, with almost 70% of its logging now being done in second-growth stands.

Lumbermill

- TW operates a lumbermill at Elk Falls capable of consuming 900,000 m³ of logs annually.

Certification

- Third party auditors, KPMG Performance Registrar Inc., have certified that TW, on its private forest land, conforms to the objectives and performance measures of the American Forest and Paper Association's Sustainable Forestry Initiative (SFI®).
- KPMG Performance Registrar Inc.'s third party audits have determined that all of TW's operations and facilities have environmental management systems that meet the requirements and standards for ISO 14001 international certification.

About the cover photo:
By **Rory Hill**, TW's Manager, Production Planning • This second-growth Douglas fir stand is located on TimberWest's South Island Operation at Cowichan Lake.

Since 1982, TimberWest and its predecessor companies have been pioneers in second-growth harvesting on the BC coast. Key to the Company's performance and unitholder value are dynamic marketing strategies that enhance the value of second-growth wood products and our ability to be the lowest-cost producer possible. These are the drivers for realizing returns on Operations Excellence.

Financial highlights

	2004	2003	2002	2001	2000
Operations *(in millions of dollars)*					
Sales[1]	$ 477.0	$ 445.4	$ 481.1	$ 477.8	$ 508.7
Operating earnings	94.4	58.7	89.5	87.2	96.2
Net earnings	76.9	24.8	39.3	44.6	204.9
EBITDA[2]	112.7	70.3	101.9	100.6	109.1
Earnings available for distribution[2] before provision for future income taxes and write-down of capital assets and related costs	98.8	42.2	65.8	58.8	68.0
Distributable cash[2]	125.2	51.4	90.1	83.5	89.2
Per Common Share and per Stapled Unit *(in dollars)*					
Basic net earnings (loss) per common share	$ 0.31	$ (0.52)	$ (0.21)	$ 0.06	$ 2.49
Diluted net earnings (loss) per commom share	0.31	(0.52)	(0.21)	0.06	2.48
Basic and diluted earnings available for distribution[2] before provision for future income taxes and write-down of capital assets and related costs per Stapled Unit	1.29	0.55	0.88	0.90	1.02
Basic distributable cash[2] per Stapled Unit	1.64	0.67	1.21	1.29	1.34
Diluted distributable cash[2] per Stapled Unit	1.63	0.67	1.20	1.29	1.34
Distributions paid per Stapled Unit	1.08	1.08	1.08	1.08	1.08
Financial Position *(in millions of dollars unless otherwise indicated)*					
Operating working capital[3] *(excludes short-term borrowings and distributions payable)*	$ 52.5	$ 40.5	$ 56.3	$ 50.4	$ 37.1
Total assets	1,434.5	1,440.9	1,478.3	1,487.2	1,505.3
Total debt[3]	217.0	255.0	236.5	378.6	375.1
Unitholders' equity	907.1	875.5	914.8	788.5	787.7
Total capitalization[3]	1,124.1	1,130.5	1,151.3	1,167.1	1,162.8
Debt-to-total capitalization ratio[3]	19.3%	22.6%	20.5%	32.4%	32.3%
Market capitalization[3] *(at December 31)*	1,159.8	968.3	914.3	841.0	703.4

1 Due to a change in accounting policy implemented in 2004, prior year sales figures have been reclassified to conform to the current year's presentation.

2 EBITDA, earnings available for distribution, distributable cash and basic and diluted earnings available for distribution and distributable cash per Stapled Unit are measures that do not have a standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP) and may not be comparable to similar measures presented by other companies. Management believes that presentation of these measures will enhance an investor's understanding of the Company's operating performance. Reconciliations between net earnings as determined in accordance with GAAP and these measures are provided in the management's discussion and analysis included in this annual report under "Results of Operations."

3 Operating working capital, total debt, total capitalization, debt-to-total capitalization ratio and market capitalization are also measures that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. Management believes that presentation of these measures will enhance an investor's understanding of the Company's financial resources and capital structure.

Distributable cash

Distributable cash includes consolidated earnings before income taxes less cash income taxes, plus depreciation, depletion and amortization, plus proceeds from the sale of property, plant and equipment net of their gain (loss) on sale, less additions to property, plant and equipment and, from time to time, adjustments for other items deemed appropriate by the Company's Board of Directors.

Stapled Units

Stapled Units are a unique form of security that combines the attributes of common shares, preferred shares and debt in a single security. TimberWest Forest Corp. Stapled Units consist of one common share, 100 preferred shares and approximately $8.98 face amount of Series A Subordinate Notes. These are "stapled" together as a single unit trading on the Toronto Stock Exchange under the symbol TWF.UN. Holders of TimberWest Stapled Units receive annual interest income of approximately $1.08 per Stapled Unit on the Subordinate Note component. Cash in excess of this amount may be distributed as declared by the Company's Board of Directors.

Average Annual Investment Returns

Asset Class	1995–2004 (10 yrs)	1985–2004 (20 yrs)	1975–2004 (30 yrs)	1960–2004 (45 yrs)
Timberland*	7.8%	12.8%	12.6%	12.3%
Commercial Real Estate	10.9%	7.6%	9.6%	9.4%
S&P 500	12.1%	13.3%	13.7%	10.5%
US T-Bills	3.9%	4.8%	6.2%	5.6%
US Consumer Price Index	2.5%	3.0%	4.5%	4.3%

* Measured as the holding period returns from a portfolio of US timberland.
Source: Hancock Timber Resource Group (2005)

From the CEO

To our unitholders:

2004 was a milestone year for TimberWest. We not only delivered very strong financial results and achieved many of the Operations Excellence goals established three years ago, we also transformed our business into a more focused forest land management company.

This performance was possible because everyone pulled together to focus on our Operations Excellence strategy, even when it meant significant change for the people involved. I want to thank all of our employees for their hard work and dedication.

The Company generated distributable cash of $125.2 million, or $1.64 per unit, compared to $51.4 million in 2003, or $0.67 per unit. Year over year, we more than doubled distributable cash as a result of better operating performance combined with net one-time gains. In 2004 we improved operating margins from timberland operations, realized higher sales and operating earnings from our sawmill, and returned to lower capital expenditure levels. Distributable cash generated in 2004 also includes $16.7 million in net cash proceeds from the sale of Tree Farm Licence 46 (TFL 46) and $14.0 million in cash proceeds from the settlement of the 1995 expropriation of harvesting rights in the Walbran Valley. These proceeds were partially offset by business transformation restructuring charges of $4.6 million.

Setting aside the one-time items, TimberWest generated its highest level of distributable cash since inception. And we accomplished this despite the rapid rise in value of the Canadian dollar relative to the US dollar.

The Elk Falls Lumbermill continues to be cash and earnings positive even after being assessed international prices for the logs it consumes. Improved spreads were obtained through higher realizations, increased wood chip pricing and improved recoveries. Production increases were largely attributed to recent capital improvements and our preventative maintenance program. We are pleased with the progress Elk Falls continues to make in its ongoing efforts to achieve an economic return on the capital employed in the sawmill.

Timberland people focused all year on cost savings programs, which continued to generate significant benefits in 2004. We achieved overall cost reductions of $6.80 per m^3 in 2004 compared to 2003. Our work in this area over the period 2002 to 2004 has reduced costs by $11.57 per m^3, or 15%.

Safety was the one area where we unfortunately did not meet our goals this year. The timberland operations 2004 MIR was 5.57, compared to a target MIR of 2.55. While we ultimately aim for zero accidents, TimberWest's 2004 safety results on the timberland side were better than the industry average MIR of 8.16. With a new collective agreement, it was a year of change and unusual circumstances for all of BC's coastal forest industry. For TimberWest employees, the change was even more extreme as the Company sold TFL 46 and announced the intent to contract out. With all of the big changes behind us, we anticipate that TimberWest employees and contractors will be able to turn in a safety performance more consistent with our values and goals in the future. While Elk Falls Lumbermill also slightly missed its MIR target of 2.5, the mill did attain its goal of having the best safety record of Forest Industry Advisory Service–reporting coastal lumbermills in BC.

The highlight of the year was our success in transforming our business into a more focused forest land management company as a result of the new labour agreement announced in May 2004. TimberWest moved quickly to competitively bid the road building and timber harvesting activities that were still being done by Company crews to stump-to-dump contractors. We are the first major forest company on the BC coast to completely exit the operating side of the logging business. This was a natural progression of our Operations Excellence strategy. It aligns our business model with industry norms in the rest of North America, further reduces costs and improves our flexibility to respond to market changes. Moreover, the necessary safeguards are in place with our contractual arrangements to ensure that new contractors operate to TimberWest standards of performance when it comes to issues like safety, the environment and log quality and merchandizing.

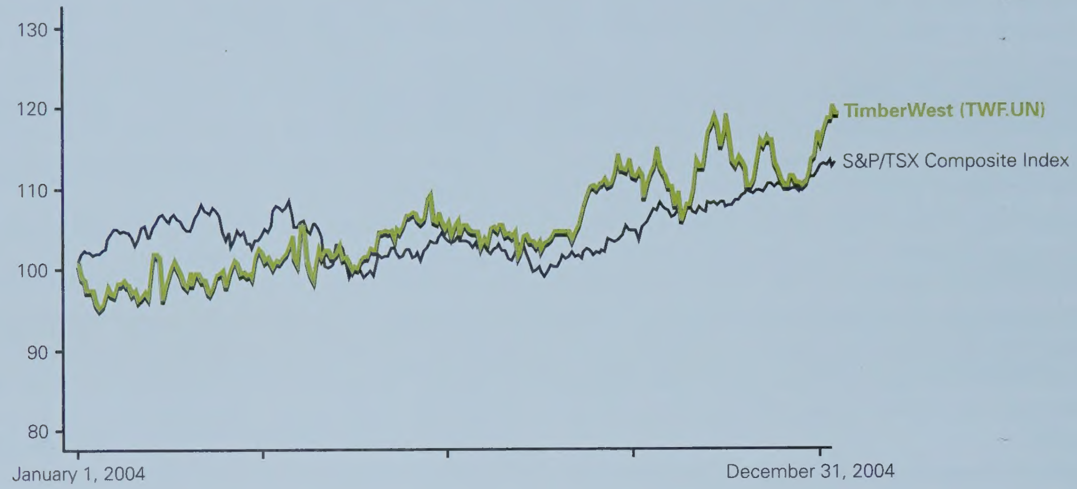
This transformation followed the sale of the public land portion of our Southern Vancouver Island operation, TFL 46, to the Teal-Jones Group. This transaction allows TimberWest to pursue our strategic objective of increasing our focus on the private timberland portion of our business.

We believe this sale and our move to a contractor model are positive for all stakeholders. The sale contributes to the diversification of tenure that the government's new forest policy promotes, while enabling Teal-Jones, a privately owned BC company, to secure fibre for its recently expanded BC sawmill business. Contracting also provides opportunities for smaller, community-based businesses, which is something we committed to providing in the coastal "Vision" document developed by TimberWest, Interfor and Weyerhaeuser last year.

We continue to focus on diversifying our markets to

Front row (L–R): Ed Vervynck, General Manager of Manufacturing; Virginia Aulin, VP of Public Affairs and Government Relations; Paul McElligott, President and CEO; Bev Park, VP of Finance and CFO; Mark Stock, VP of Human Resources and Information Technology
Back row (L–R): John Mann, VP of Timberland Operations; John Kelvin, VP of Log Marketing and Sales; Hamish Kerr, VP of Strategic Planning and Forest Policy; Gerry Young, Assistant VP of Timberland Operations

TW Stapled Units vs. S&P/TSX Composite Index



ensure we are realizing the highest value for our products. In 2004, 65% of our log sales volumes were within BC, 21% went to Asia, and the remaining 14% went to the United States. Unfortunately, we are still hindered in our efforts to achieve the best value for our resource by the federal government's Notice 102, which restricts the sale of BC logs outside of Canada (a restriction which only applies to BC). The existence of Notice 102 depresses the price of both private and public land logs on the coast of BC. We remain optimistic that Notice 102 will be rescinded as part of a settlement of the Canada/US softwood lumber dispute. However, given that no progress was made in 2004 to get us closer to a resolution of this dispute, TimberWest continues to pursue its legal challenge against the federal government on this matter. We anticipate the issue will go to trial in the Federal Court in the second half of 2005.

A cornerstone of our Operations Excellence strategy is our commitment to fostering sustainable forest management, maintaining water quality for domestic use and fishery values, mitigating environmental risk, and protecting key public environmental values and private timberland assets. We continue to undergo regular third party audits of our operations and facilities as well as our environmental management systems for compliance with our ISO 14001 and SFI® certifications. I am pleased to report that we were in full compliance in 2004 and these third party certifications have been maintained. In 2004, we also entered into an agreement with the Forest Research Extension Partnership to further enhance sustainable and adaptive management in the province's forests.

Another important Operations Excellence goal is to increase the sustainable yield of our annual timber harvest. We have focused on making our trees more valuable by increasing genetic worth, fertilization and managing competing vegetation. We have also cruised more of our timberlands and enhanced our forest inventory management information system to refine calculations on inventory volumes, better predict growth rates and better understand the outcomes of activities undertaken to improve growth and yield. As a result of all the work in this area over the past three years, we were very pleased to announce an increase in the long-run sustainable yield on our private timberlands in 2004, from 2.3 million m^3 to 2.5 million m^3. This forms the basis for our harvest plans.

I thank all TimberWest employees and contractors for working so hard
yet again in 2004. I also thank our customers and suppliers.
On behalf of the Board of Directors,

Paul J. McElligott, *President and CEO*
February 8, 2005

Front row (L–R): Conrad A. Pinette; William C. Brown; Paul J. McElligott, President and CEO; Kenneth A. Shields
Back row (L–R): Robert W. Murdoch; V. Edward Daughney, Chairman; Anthony J. Petrina

From the Chairman

To our unitholders:

TimberWest delivered exceptional results in 2004, generating record total distributable cash of $125.2 million. This is indeed an accomplishment given that it was a year filled with strategic challenges.

The Company made significant progress on its Operations Excellence strategy in 2004 and has transformed TimberWest into a much more focused timberland management company by selling one of its tree farm licences and moving to a contractor harvesting model. Management can now concentrate on forest management, sales and marketing.

We will stay the course with Operations Excellence through 2005 as there are still gains to be made through cost reduction, enhancing the value of our forests and market expansion. Given the progress we have already made, we are in an excellent position to consider accretive acquisitions. And, as always, TimberWest will maintain its commitment to environmental performance and continue to work with a range of partners to ensure the protection of non-timber resources on both its private and Crown lands.

TimberWest's commitment to enhancing unitholder value is reflected through the level and quality of its cash distributions.

TimberWest vs. Timberland Peer Group (Average Annual Returns)

TimberWest's five-year performance has been excellent compared to our peers.
The numbers here illustrate average annual returns.

	2000	2001	2002	2003	2004	Average
TimberWest	26%	30%	1%	15%	27%	20%
Timberland Peer Group*	-7%	6%	-10%	37%	33%	12%

* Timberland Peer Group includes Deltic Timber Corporation; Plum Creek Timber Company Inc.; Pope Resources, LP; Rayonier Inc.; and Weyerhaeuser Company.

The Board continues to monitor its policies and procedures to ensure it is operating to a high standard of corporate governance. We will ensure our model complies with new governance standards as they are implemented.

Tony Petrina, who has been a member of the Board since the inception of TimberWest in 1997, will retire at the Annual General Meeting in April 2005. All unit-holders have had the benefit of his expert guidance and, on behalf of unitholders, I thank Tony for his valuable contributions.

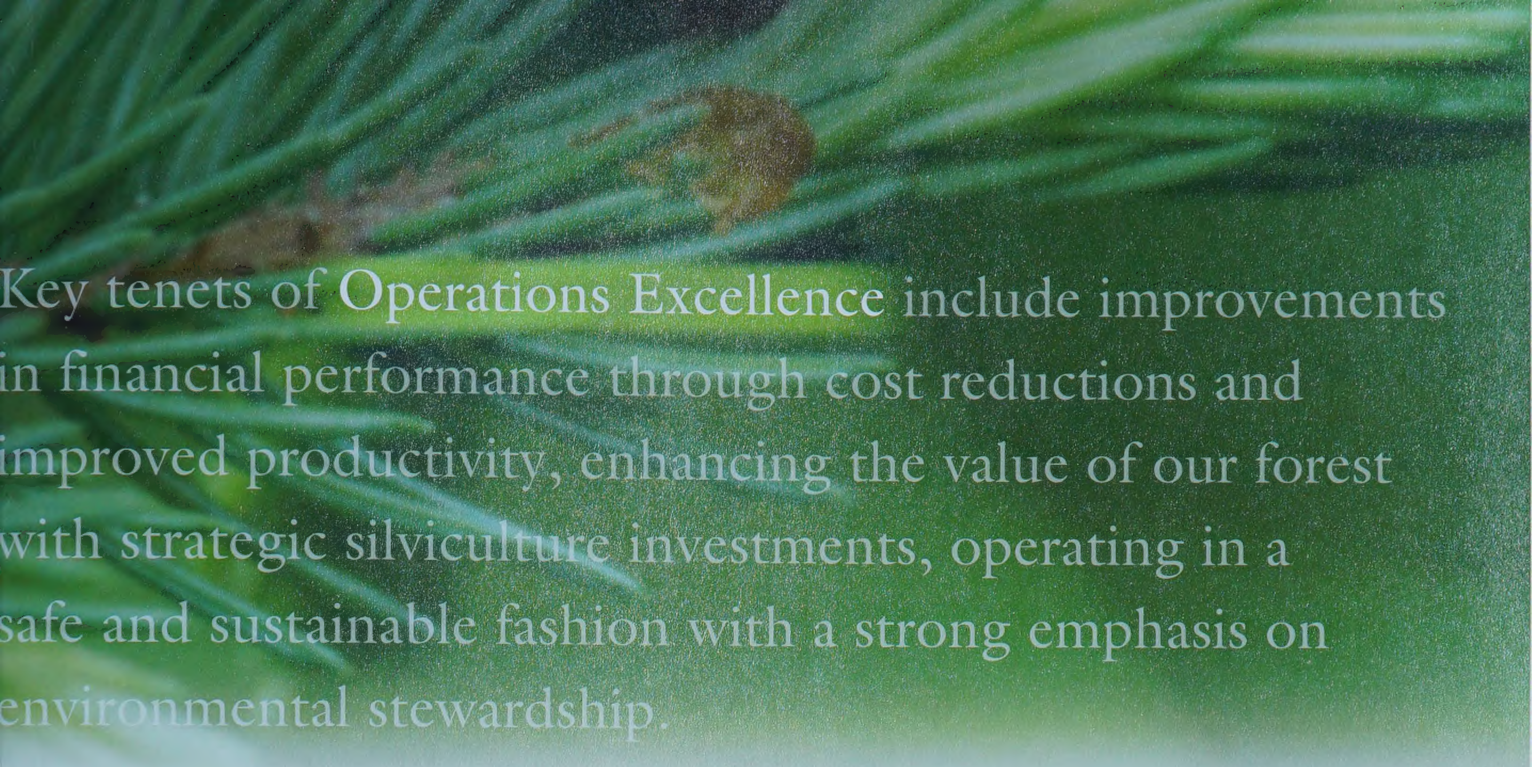
Looking beyond the Company, there continue to be many changes in the BC coastal forestry industry. The BC government has made good progress on policy reform, which is allowing market forces to determine success in this industry. Companies have also been making positive changes to return to profit levels that will support investment and growth in the future. The sawmill sector on the coast is becoming more competitive and that is good news for TimberWest since BC sawmills are our largest customers.

We have generated strong performance for our unitholders to date, surpassing our peers, and expect to continue this into the future. We thank all of our unitholders for your continued support.

On behalf of the Board of Directors,

V. E. Daughney

V. Edward Daughney, *Chairman of the Board*
February 8, 2005



Key tenets of Operations Excellence include improvements in financial performance through cost reductions and improved productivity, enhancing the value of our forest with strategic silviculture investments, operating in a safe and sustainable fashion with a strong emphasis on environmental stewardship.

Our goals, strategies & 2004 achievements

Cost reduction, Market expansion, Enhancing forest values, Safety, Stewardship

We are an industry leader in second-growth harvesting

On the coast of BC, an increasing proportion of the harvest now comes from second-growth forests. Harvesting second growth will replace harvesting of original forests over time, leaving BC with large amounts of old-growth forest. TimberWest is far ahead of other BC coastal forest companies in second-growth harvesting on both its public and private timberlands. On TimberWest's combined private and public lands, just under 70% of what the Company harvests is second growth. TimberWest anticipates that over the next five years its operations will be harvesting an even larger percentage of second-growth timber.

Key tenets of Operations Excellence include improvements in financial performance through cost reductions and improved productivity, enhancing the value of our forest with strategic silviculture investments, operating in a safe and sustainable fashion with a strong emphasis on environmental stewardship.

Cost reduction

To be cost competitive on a global basis.

	Goal as compared to 2003	Actual 2004 results
Timberland Operations	To reduce costs by $6.45 per m³	Reduced costs by $6.80 per m³
Elk Falls Lumbermill	Reduce unit conversion costs	Reduced costs by $1.5 million

Performance overview

Despite the focus on implementing significant organizational change and the negative impact of an extended fire season, Timberland Operations exceeded cost reduction targets for 2004. Cost savings were generated through a variety of initiatives, described below. In 2004, the Elk Falls Lumbermill successfully implemented a third planermill shift and, as a result, did not incur outside planer processing costs. This resulted in incremental savings of $1.5 million, a 6% reduction in costs compared to the prior year.

Ongoing strategies & 2004 achievements

Increase proportion of mechanized harvesting by Company crews over 2003.

- Increased mechanized falling from 44.9% to 49.1%.
- Increased mechanized log processing from 66.9% to 75.2%.
- Increased ground-based harvest systems from 47.7% to 52.9%.

Identify new cost-saving opportunities.

- Increased equipment use (more hours per day), reduced overtime, and reduced transportation costs per productive hour worked by implementing alternate shifts in three operating areas, as allowed under the new Coast Master Agreement.

Continue to reduce WCB premiums through improved safety performance.

- At Elk Falls Lumbermill, improved safety performance led to a reduction in WCB premiums of 22% compared to base rates, a savings of approximately $200,000 a year.

At Elk Falls Lumbermill, continue to lower conversion costs.

- Saved $1.5 million by increasing productivity in the sawmill and planermill, thus decreasing unit conversion costs by 6%.

Improve operations planning and work methods with benchmarking and operational studies.

- Benchmarked timberland operations in New Brunswick and the Pacific Northwest with a focus on management systems, operating procedures, cost and productivity, planning processes, and quality and value recovery measures.
- Implemented initiatives learned through the Forest Engineering Research Institute of Canada:
  - > Achieved an 8.75% increase in the maximum weight allowance for tri-axle tractor-trailers hauling long logs.
  - > Continued application of mechanical falling and bunching of cable-yarded timber and expanded use of a grapple-equipped forwarder.
  - > Increased the private land weigh-scale volume from 10% of total volume in 2003 to 17% in 2004. Costs were reduced by the ability to increase direct deliveries to end-users.

Best practices

Building the right road for the job

TW's timberland operations are changing their approach to road building, and in so doing have saved the Company more than $2 million in 2004 alone.

"The first cost-reduction target we set ourselves for 2004 was to use the smartest possible approach to road construction," says John Mitchell, Manager of Operations Analysis. That means taking all the precautions necessary to meet environmental and safety standards, but using a more considered approach regarding timing of construction and meeting the various demands the roads are built for.

"You can certainly save money by building the sub-grade or ballast more efficiently, but the main savings to be had are building your roads in the drier time of year," says James Luxmoore, Engineer at Nanaimo Lakes Operation.

Timing and duration of use can also mean roads can be constructed differently. For instance, if roads are only going to be used in summer, then there's no point in building an all-season road, which entails spending up to 150% more, or $30 more per metre.

As well, spur line roads leading into side valleys, where harvesting may only be done for one summer, need not be constructed to the same standards as mainline roads used for hauling timber in all seasons, year after year.

"It's a matter of risk management," notes Don Holmes, Operations Planner at Honeymoon Bay Operation. "If you use the wrong surfacing material and the road surface breaks down, things will come to a grinding halt. But there's no need to build all-season roads everywhere."

Although the aim is to reduce road construction costs, safety or environmental standards are never compromised.

"If there is no chance of negative environmental impact, then you don't have to spend a whole lot of money making a fancy road," adds Luxmoore. "But if an area has any environmental risks such as water users and fish streams, you certainly need to design the road to a higher standard."

Saving wood by the thousandths at Elk Falls

One of the key performance indicators for any sawmill is lumber recovery — the amount of lumber that is extracted from a log. The greater the lumber recovery, the lower the relative costs for each log processed.

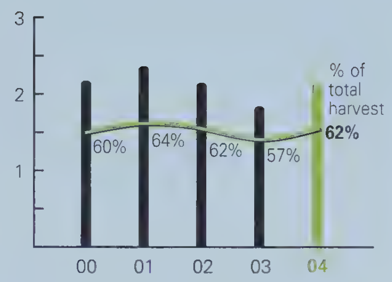
To that end, crews at Elk Falls Lumbermill are overlooking nothing, even if it comes down to thousandths of an inch.

Gang saws are one of the main machines in the mill for breaking down logs, accounting for up to 60% of Elk's throughput and making an average of four cuts on every log processed. At Elk Falls, the gang saws had a kerf (or width) of 200 thousandths of an inch, a measurement recommended by the manufacturer. But through innovation and a lot of hard work, crews have been able to reduce that kerf to 185 thousandths of an inch.

"The challenge wasn't to get a thinner saw. The challenge was to make sure it cut straight," says the mill's Head Filer, Gary McQuinlan .

The decrease in kerf has enabled the mill to reduce log costs by producing the same amount of lumber with fewer logs.

"The increased recovery will improve profitability for years to come," says Elk Falls' Plant Manager, Terry Hamilton.



Second-growth Harvest Volumes
(million m^3)

2005 Targets

With the new contractor model in place in 2005, TimberWest will no longer directly manage on-the-ground harvesting operations. Instead, the Company will ensure that harvest planning optimizes efficiencies with its community-based contractors.

TimberWest will benchmark operations in other jurisdictions and apply improved techniques and technologies. As well, Timberland Operations will reduce costs by better managing road construction and increasing the volume of timber sorted in the woods.

Elk Falls Lumbermill will continue striving to become a low-cost producer through improving lumber processing, preventative maintenance and lumber recoveries.

Key tenets of Operations Excellence include improvements in financial performance through cost reductions and improved productivity, enhancing the value of our forest with strategic silviculture investments, operating in a safe and sustainable fashion with a strong emphasis on environmental stewardship.

Market expansion

To diversify markets and maximize the return on all logs and lumber produced.

Performance overview

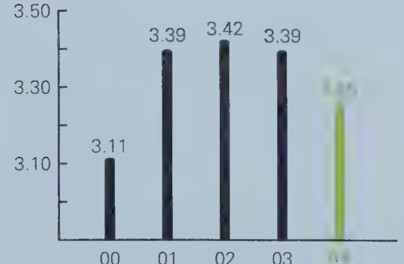
Log sales

Overall log sales in 2004 were comparable to those for 2003, with sales within BC, the Company's largest market, increasing by 2%, and export sales falling by 3%.

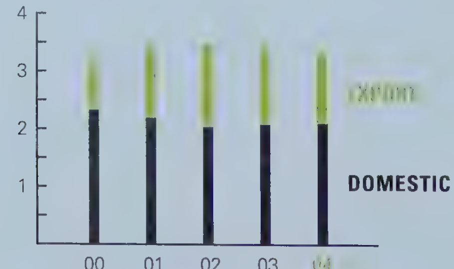
Domestic sales volumes were consistent with the prior year, while export sales volume fell 12%, from 1.3 million m^3 to 1.15 million m^3, primarily due to a drop of 156,000 m^3 in volumes sold to the US. Increased production at the Elk Falls Lumbermill and the sale of TFL 46 required a greater volume of private land logs for internal consumption.

Lumber sales

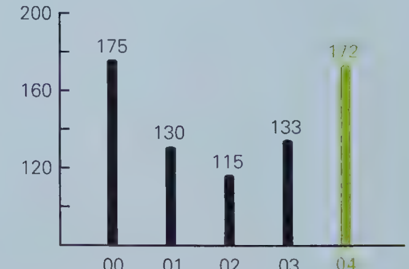
Elk Falls Lumbermill continued its focus on matching timber supply to products and markets. To better manage market developments and customer requirements, the lumbermill has been changing programs and specifications weekly as required. Elk Falls Lumbermill continued to develop new product lines complementing existing programs with the successful introduction of a Lamina program for Japan. These products are laminated in Japan for the structural laminated market. As a result, 2004 was a record-breaking year for Elk Falls, with sales of \$106 million compared to \$74 million in 2003 — a 43% increase.



Log Shipments
(million m^3)



Log Shipments
Export and Domestic Markets
(million m^3)



Lumber Shipments
(mmfbm)

Ongoing strategies & 2004 achievements

Log sales

Increase sales in BC by targeting firms that have increased their capacity for smaller diameter logs.

- Increased volume of wood sold in BC despite the sale of TFL 46 in May. Increased sales of smaller diameter wood to the Teal-Jones Group and significantly increased sales to CIPA Lumber Co. Ltd., a veneer producer which has recently increased capacity.

Increase purchase volumes to facilitate programs at Elk Falls Lumbermill.

- Increased log purchases, partially as a result of cedar logs purchased from the Teal-Jones Group after the sale of TFL 46.
- In terms of rafted volumes of the type of log Elk Falls processes, volumes purchased increased from 200,310 m^3 in 2003 to 304,407 m^3 in 2004. The total consumption of wood at Elk Falls increased from 628,124 m^3 in 2003 to 877,177 m^3 in 2004.

Lumber sales

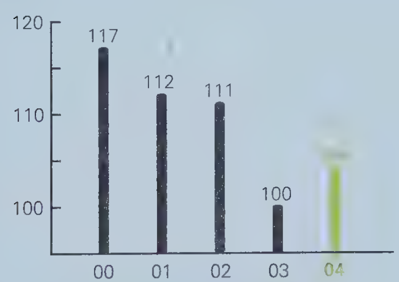
Respond to increasing market demand for dried products.

- The total volume of dried and heat-treated lumber at Elk Falls Lumbermill in 2004 was 81% higher than 2003.

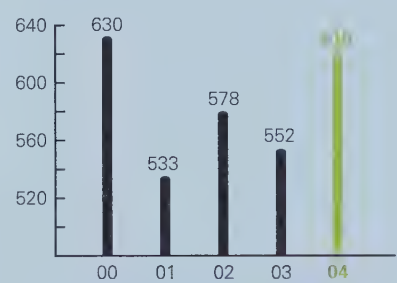
Expand sales of value-added products.

- Developed new products for application in structural engineered goods.
- Diversified product range to match timber supply to products and markets.

These developments contributed to further diversification of lumber markets for Elk Falls Lumbermill in 2004, as follows: Japan 60%, Canada 11%, Europe 10%, China/SE Asia 8%, USA 8%, Australia 3%.



Average Log Sales Realizations
($ per m^3)



Average Lumber Sales Realizations
($ per mfbm)

Challenges in 2004

Log sales

The biggest challenge for TimberWest to expand its markets for log sales was to produce more volume suitable for the manufacture of veneer to meet increased market demand. Log manufacturing solutions and sorting specifications were changed to allow for the sale of shorter preferred length logs. As veneer is produced from 8-foot x 6-inch blocks, the logs must be manufactured to multiples of this length with tight tolerances to maximize the value to the customer and the return to TimberWest. As a result, the volume of peelable logs TW produced in 2004 was 30% greater than in 2003.

Lumber sales

The Chinese economy continued to have a significant impact on all commodities, changing market dynamics in all regions of the world. The increased competition for ocean transportation to service the Chinese market left some traditional cargo markets with no break-bulk services or contributed to significantly higher freight costs to maintain these services.

The rapid appreciation of the Canadian dollar against the US dollar and other world currencies also created a challenging environment.

Best practices

Getting the best from the best

Getting the right log to the right customer is critical at the best of times, but even more so when that log is high-value, large-dimension old-growth fir or cedar. Such logs are prized around the world for their clear, tight-grained, beautiful wood, especially in Japan and Korea, where they are used for traditional buildings like temples.

So when TW's Cowichan Woodlands Operations Planner John Kay realized he had about two dozen such trees sprinkled in amongst 40,000 m^3 of standing timber, he set the gears in motion to treat this wood with the kid gloves it deserved and get it to the right customers.

"There is other wood like that out there, but it's getting rarer and rarer. When we do come upon it, we have to take good care of it to extract the most value out of it," says Kay. "If care isn't taken during the falling phase, a tremendous amount of volume and value can be lost to breakage."

Kay arranged for a team of highly skilled fallers to de-limb and top the trees, then fall them. Some logs could be moved to the landing site by helicopter, but others were too heavy and had to be line-loaded, taking great precautions not to damage the wood. Kay also contacted TW's Log Traders Steve Gillett and Blair Rodgers to apprise them of the situation so they could contact customers.

"Fortunately some Korean customers were already here on other business, so we were able to bring them right out to the woods and then buck up the logs to their exact requirements," says Kay.

The logs were trucked individually to Shoal Island Dryland Sort, where, once again, they were given the kid-glove treatment.

"They had to be kept really clean, and great care went into measuring them to make sure they were exactly right. I had several of my senior scalers do each log so we had two or three assessments," says Ed James, Scaling and Grading Coordinator for TimberWest's South Island Operation.

Once the logs were scaled, sorted and graded they were boomed — again individually because of their size — to an auction site on the shores of the Fraser River. Bidders from Korea and Japan were keen on what they saw, pushing prices as high as $25,000 for a single log.

"This was a very successful venture," says Rodgers, who, along with Gillett, put a great deal of effort into targeting the most qualified customers. "Our customers and our log marketing department appreciated the opportunity to work directly with operations personnel to ensure we got the best product from these logs."

Investing during tough times means opportunity in good times

For coastal sawmills in BC, 2003 was an extremely tough year. Despite the financial difficulties, TimberWest continued with the capital expansion plans approved by the Board of Directors in the fall of 2002. Elk Falls Lumbermill management also continued their aggressive plan to crew up the mill to run 24 hours, five days a week.

Slow markets are generally the best time to embark on significant capital expansion, so when markets turn around, the operations are poised to take advantage of them. This proved to be true for Elk Falls. In the summer of 2003, the major capital expansion projects were completed, and project efficiencies were worked out by late 2003. By the end of 2003, lumber markets began to improve, remaining fairly active through to the middle of 2004.

The expansion strategy paid off. Elk Falls turned in a record-breaking year in 2004, with the highest production, fibre recovery and cash earnings in the history of the mill. Had the Company delayed the capital expansion, the mill would have earned significantly less. While Elk Falls' financial performance continues to improve, the mill has yet to achieve an economic return on capital employed.

2005 Targets

Log sales

For 2005 and beyond, TimberWest anticipates that the new contractor model will provide more flexibility and responsiveness to market conditions, which should enhance the Company's competitiveness and its ability to expand sales. In deteriorating markets, TW will be able to curtail harvesting activities and log flow in a more timely fashion, thus avoiding excess inventory. The contractor model will also allow TW to increase volumes at times of the year when pricing is traditionally higher and to respond to required manufacturing changes more quickly. Since the felled and bucked inventories maintained by contractors will be lower, the time lag between a change in manufacturing specifications and when the volumes are actually available to the market will be reduced.

In 2005, TimberWest will replace its log inventory software system. The new system will include enhanced reporting functions of log quality and log value recovery. This will ensure that TW is optimizing value in the new contractor-based environment.

Lumber sales

Success in 2005 will depend on continued diversification and adaptability. Elk Falls' ability to respond to changing conditions will enable the operation to maintain its position as a coastal leader. The kiln-drying capacity added in 2003 along with the planermill upgrades scheduled for 2005 position Elk Falls to successfully develop and maintain product lines that are competitive with other jurisdictions. The mill will continue to move up the value chain in terms of product offerings and to respond to ever changing customer requirements.

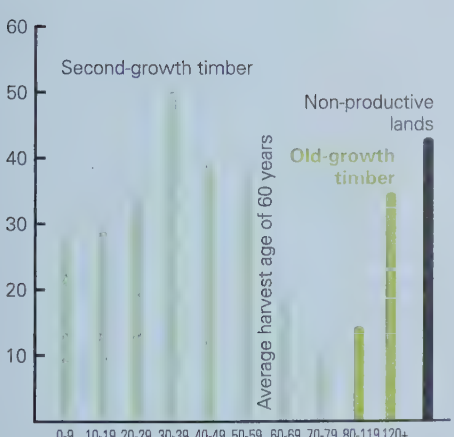
Key tenets of Operations Excellence include improvements in financial performance through cost reductions and improved productivity, enhancing the value of our forest with strategic silviculture investments, operating in a safe and sustainable fashion with a strong emphasis on environmental stewardship.

Enhancing forest values

To increase the value of the operable private timberland base.

Performance overview

TimberWest is closing the gap in value between its private timberland and timberland located in the US Pacific Northwest. An important factor has been TimberWest's ability in 2004 to increase its long-run sustainable yield from an average of 2.3 million m^3 per year to 2.5 million m^3 per year. As US timberland values hold steady with the passage of time, TimberWest's timberland value has gone up, which is reflected in the Company's increased unit value.



Private Timberlands Age Class Distribution
(thousand ha)

New private land regulations bring certainty

In August 2004 the provincial government enacted the Private Managed Forest Land Act. The new regulations, which are a continuation of the previous protection of key public environmental values, provide clarity for owners of private land assessed as Managed Forest. Specific requirements include protecting fish habitat, water quality, sensitive soils and critical wildlife habitat, in addition to reforesting lands after harvesting. The administrative model is an innovative public/private partnership.

"I see this as an endorsement of the environmental protection practices implemented by TimberWest and other holders of private lands classified as Managed Forest," says John Phillips, Manager, Forestry Programs. "It's also a show of confidence that the government has a level of trust in our management that they are willing to try something innovative. The result is continued well-managed resources that provide benefits to our neighbours while at the same time providing TimberWest's investors with some certainty that the investments the Company is making are being protected."

Real estate sales enhance value

Real estate sales have been an important ongoing part of TimberWest's business. About 12.5% of the Company's cash flow has been generated from this area since inception. This is land that the Company has determined does not have long-term timberland potential and should be sold for higher and better use.

Ongoing strategies & 2004 achievements

Increase the growth rate of the forest.

- Planted approximately 5.6 million seedlings in reforestation programs, 4.9 million on TW's private land and 740,000 on Crown land. The heavy rains in late August and early September provided excellent weather for the fall planting program.
- Through successful programs at TW's Mount Newton Seed Orchard and the purchase of seed from Weyerhaeuser, surpassed expectations by aggressively increasing the average performance of Douglas fir seedlings used for replanting. In 2003, the average increase in growth rate of seedlings planted on TW's private timberland was 5.2%. In 2004, the average gain was 6.8%. In 2005 the average gain of seedlings is expected to exceed the target of 11%. Seedlings now in cold storage waiting for spring planting have an average gain of 13.3%.
- Continued comprehensive multi-year fertilization program that will lead to enhanced timber yields. Successfully fertilized more than 3,300 ha of Douglas fir stands. Adjusted late-rotation fertilization practices to fertilize some stands more than once during a rotation. This will increase yield by an estimated 8–16%.
- Worked extensively with the provincial government to improve regulations that control vegetation management. New regulations will allow companies like TimberWest to better manage vegetation on private timberland, particularly on more productive sites, and to increase timber growth rates, much as competitors do in other jurisdictions.
- Hired an expert to review operations at Mount Newton Seed Orchard, leading to recommendations on how to increase the performance of Douglas fir seed. Work conducted in 2004 indicates that seed production can be significantly increased through better insect control and supplemental pollination. This work will be expanded in 2005 with the intent of increasing Douglas fir seed yield by at least 30%.

Benchmark to ensure use of best practices.

- Key silviculture specialists in the Company toured forestry operations in New Brunswick. Of particular interest were the intensive silviculture programs and vegetation management techniques used to enhance the forest growth. The use of forwarders or skidders to carry out vegetation management has potential application on some TimberWest land.
- Hired an independent silviculture consultant, who confirmed that TW understood the economics of silviculture and, for the most part, was following silvicultural methods best suited to its land base to generate an investment return of 8% or more. Recommendations the Company implemented include using faster-growing tree seed and applying fertilizer to late-rotation second-growth Douglas fir stands.

Classify land base and improve access to information.

- Cruised 17% of second-growth timber as part of the Company's four-year inventory plan. At the end of the second year, 35% of second-growth timber has been cruised, 5% more than planned.
- Refined TimberWest's first computer-generated 20-year harvest plan (produced in 2003) to make it more useful for operational planning. The 20-year planning process schedules stands for harvest while meeting SFI® guidelines on maximum opening-size and adjacency restrictions.
- Upgraded geographic information systems software, which allows easier access to and manipulation of data on the Company's timberland base, including silviculture, harvesting, riparian zones, wildlife habitat management and road construction.
- Updated TimberWest's yield tables to reflect the higher stand volumes resulting from the improved reforestation practices implemented by the Company over the past 20 years.

Challenges in 2004

Enhancing the value of timberland through silviculture presents an ongoing challenge: making the return on investment work. The dilemma is that when a dollar is invested today to increase growth rates in the forest, returns on that investment are not realized until the trees are harvested 40 or 50 years later. Profits need to increase to enable TimberWest to invest more in the forest to boost growth rates. While profits can be increased by reducing costs, TW is already highly cost-effective because it uses contractors for planting seedlings, managing vegetation and fertilizing.

Superior seedlings: TimberWest's Steve Lorimer examines quality seedlings grown from improved seed for TW's reforestation program with Lola Elder, owner/manager of the Sylvan Vale Nursery of Black Creek, a long-time contract tree grower for the Company.

Best practices

Mission accomplished: Better silviculture means higher yield and more wood

For the past three years, TimberWest has focused on increasing the yield from the forest, and now that strategy has paid off.

With higher growth expected from the forests, TW has been able to increase its long-run sustainable yield (LRSY) from its private timberland from an average of 2.3 million m^3 of wood annually to 2.5 million m^3.

"This really is the big news for us in 2004 in terms of enhancing value in the forest," says Hamish Kerr, Vice-President of Strategic Planning. "Our new LRSY is all about growing trees faster and represents the culmination of all the hard work we've been doing in silviculture to improve our yield since setting our Operations Excellence goals in this area three years ago."

Much of the increased yield is due to the work being done at TW's Mount Newton Seed Orchard, where improved seed is being used to produce Douglas fir trees with a performance gain of 11% compared to former gains of 5–7%.

"We can't cut more wood unless we grow more wood, and this reflects the improved yield from future stands," says TW's Manager of Inventory, Jim McPhalen. "The volume from our managed plantations is going to be greater because of a combination of things, but the main factors are better reforestation practices, improved seed and late-rotation fertilization."

The new LRSY was established by using a computer model of TimberWest's forests to calculate future cut rates. "TimberWest found they could raise their cut if they invested more in their forest — that's what our model told them, and that's what's happened," says Doug Williams, a partner with Cortex Consultants, a firm assisting TW with this initiative.

2005 Targets

TimberWest will continue to focus on growing more fibre in a way that generates a return that exceeds its cost of capital, and on improving the Company's growth-and-yield modelling capability. TW plans to increase the growth rate of the forest by about 0.5% each year.

Strategies include the following:

- Continue to work on seed improvement program at Mount Newton Seed Orchard and increase average seed worth.
- Integrate current late-rotation fertilization practices with TW's plan to fertilize some stands more than once during a rotation.
- Design new protocols to improve the collection of data from field checks.
- Continue to collect inventory information and improve the accuracy of computer-generated 20-year logging plans.

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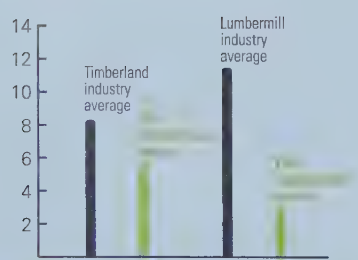
Safety

To achieve the best safety record in coastal BC for both logging and sawmilling.

	MIR		SR	
	TARGET	ACTUAL	TARGET	ACTUAL
Timberland Operations	2.55	5.57	50	163.60
Elk Falls Lumbermill	2.50	2.77	50	14.67



2004 MIR Comparisons

Medical Incident Rate (MIR) is the number of recordable cases per 100 full-time-equivalent employees per year. It is calculated by multiplying the number of cases by 200,000 and then dividing by the exposure hours worked by all employees.

Severity Rating (SR) is the number of days lost due to current year medical claims per 100 full-time-equivalent employees per year. It is calculated by multiplying the number of days missed by 200,000 and then dividing by the exposure hours worked by all employees. The number 200,000 is equivalent to 100 employees working 40 hours per week for 50 weeks.

Performance overview

Timberland Operations

Safety was the one area where we did not meet our goals this year. The 2004 MIR for timberland operations was 5.57, compared to a target MIR of 2.55. While MIR results were better than the coastal timberland average of 8.16, this is not good enough and improvement is a priority.

With a new collective agreement and unusual hot, dry weather, it was a year of change and unusual circumstances for all of BC's coastal forest industry. For TimberWest people, the change was even more extreme as the Company sold TFL 46, the public land portion of the Honeymoon Bay operation, and announced the intent to contract out operations.

However, there was also good progress during the year. The Company's contractor safety program design was enhanced, job safety breakdown for all timberland operations was redesigned, and site audits for all Company operations were completed.

Elk Falls Lumbermill

Elk Falls Lumbermill only slightly missed its target of 2.5, with a 2004 MIR of 2.77. The mill did, however, attain its goal of having the best safety record of Forest Industry Advisory Service–reporting coastal lumbermills in BC.

In 2004, three departments achieved notable lost-time incident free milestones: one year for the Sawmill Department, seven years for the Filing Department and 10 years for the Boom Department. These safety accomplishments were achieved during a year in which a record number of hours were worked and the workforce was increased by 15% from 2003, from 260 to 300 employees. In 2004, 504,000 hours were worked — over 100,000 hours more than any other year in the lumbermill's history — and only 37 working days were lost due to injury for the entire year. Because of Elk Falls' excellent safety record over the past three years, WCB rates for 2005 have been set with a 36.6% discount, which will save the Company approximately $200,000 in premiums.

Ongoing strategies & 2004 achievements

Timberland Operations

Develop measurable safety goals for which supervisors and managers are accountable. Require safety involvement of all employees.

- Developed contractor Safety Management program and integrated it into the new business model.
- Management personnel trained in Loss Control Leadership.
- Managers and supervisors from all divisions trained in Incident Investigation.
- Began safety training for certification of all fallers.
- All divisions trained in SafeStart to complete their in-house safety program development for 2004.
- Conducted Operational Safety Program audits for each operation.

Create consistent safety standards, procedures, practices and documentation.

- Completed comprehensive Health and Safety Manual.
- Implemented site-specific Safety Operating Plans for every operation.
- Continued development of Timberland Operations Safety Council to assist with standardizing safety procedures, practices and documentation.

Train employees in proper body mechanics, posture and movement and early injury recognition. Practise early intervention.

- Continued Mobile Therapist Program to assist employees with work-related musculoskeletal injuries. This program contributed an estimated $450,000 in cost savings in 2004 by its early intervention with injured or disabled workers.

Encourage knowledge transfer and pursue best practices.

- TW's disability management program called "SPOC" (Single Point of Contact) has been adopted by the WCB province-wide, and new procedures for assignments to work types are now underway.
- Shared safety ideas with the union/industry SAFER Council to find and promote best practices throughout the industry.
- Vice-President of Timberland Operations served on WCB task force for safety improvement in the logging industry.

Work with the Workers' Compensation Board to optimize claims payments.

- An estimated $300,000 was returned to TW in payment reductions from the WCB from claims adjudication and cost-relief applications. This puts the amount recovered since March 2003 at over $1 million.

Elk Falls Lumbermill

Increase training for safety representatives and improve incident prevention procedures.

- Provided 25% more hours of training and orientation to employees and safety representatives in general incident prevention, awareness recognition and incident investigation.
- Improved incident prevention procedures through earlier intervention and more thorough examination of root causes.

Continue to meet or better increasingly higher safety standards.

- Using trainers certified by the WCB, certified all forklift drivers and all maintenance staff. As well, certified or re-certified mechanical staff who operate mobile equipment.
- Trained all maintenance and production personnel who work at elevations or use person lifts in fall restraint.
- Provided confined space training to all employees required to enter into confined spaces and trained Emergency Response Team members in fire prevention and incident protocols.

Minimize incidents through proactive safety measures.

- Increased employee awareness of the importance of high-visibility outerwear and set new requirements for all employees to wear high-visibility garments and/or markings on the work site.
- Installed monorails to provide hoisting in areas where heavy equipment is used, to minimize back injuries to maintenance staff.

Challenges in 2004

Maintaining good safety results during a year of significant change was a major challenge. In addition, the curtailment of operations due to a prolonged fire season and the conclusion of harvesting operations earlier in the year than usual affected safety statistics. Workers who had been doing modified work and light duties during recuperation from minor injuries or gradual return-to-work programs were automatically classified as lost-time incidents by the WCB. Had all of this not occurred, Timberland Operations would have met the health and safety target for lost-time injuries.

The biggest challenge for Elk Falls Lumbermill in 2004 was providing safety training and maintaining a strong safety culture with a 15% increase in personnel and a 40% increase in productivity compared to 2003. Not only was it challenging to train all new employees, many long-term employees also had to be trained as they took on new responsibilities.

Safety first: Mike Garat, Kiln Operator, performs moisture content checks at the kilns at Elk Falls Lumbermill. The mill will continue to aggressively pursue safety excellence in 2005 and beyond.

2005 Targets

TimberWest is firmly committed to providing a safe and healthy workplace for contractors and sub-contractors in accordance with its Health and Safety Program and related legislation and regulations. Contractors will be monitored regularly to ensure they maintain the health and safety of workers under their supervision. The plan for 2005 is to strengthen contract managers' ability to work with contractors as they improve their own safety programs, establishing an increased diligence around health and safety for all contractors working on TimberWest sites. Working safely will continue to be a major focus in all operations.

Elk Falls Lumbermill will continue to aggressively pursue safety excellence. To improve safety performance in 2005, the lumbermill will focus on:

- Attention to detail. Continue training employees in safety leadership roles to recognize and deal with safety problems more effectively.
- Specific training programs for first aid personnel to more effectively handle musculoskeletal and repetitive strain injuries.
- More rigorous enforcement of safety standards.
- Identifying persons with higher-than-average injury records, and working with them to increase awareness and achieve compliance with TimberWest's standards.
- Review rigging and slinging hoisting with maintenance personnel.

Best practices

Filing crew's safety garners Minister's Award

They often face the greatest safety risk with the most potential for upset conditions — locking down equipment — plus they handle heavy, sharp objects day in, day out, often in awkward positions.

The 10-man crew in Elk Falls Lumbermill's Filing Department faces some of the most challenging conditions in any working mill as they change and sharpen knives and sawblades, ranging from 20-pound blades to the huge 6-foot, 300-lb cut-off sawblade. Still, they were able to set an impressive safety record in 2004, working seven years without a lost-time incident.

"We've achieved all this through vigilance and changed attitudes toward safety," says Steve Hall, Round-saw Filer and safety rep. "We question everything now when it comes to our training and safety program in the filing room."

Their safety performance earned them a Minister of Forests Award of Excellence, presented by Minister Mike de Jong, who noted that the accomplishment "demonstrates employees' and management's commitment to safety and innovation."

Says the lumbermill's Human Resources Manager, Dave Lovely: "There was a lot of pride around the mill over that award. When it comes to safety that is a big deal."

Certification will add to faller safety

Hopes are high that people working in the most dangerous job in the province — falling timber — will suffer far fewer injuries and fatalities under the new faller certification program. The new program, designed by the WCB and run by the BC Forest Safety Council, will see all fallers certified by July 31, 2005. The goal: to create a work culture where safety is the first priority.

"It's definitely going to reduce the number of injuries and fatalities — it's a tool you can measure people with, and there's a follow-up. We've never had any way to measure people before. Now we can," says Faller Steve Telosky, who was instrumental in testing the certification standards and process and is now a qualified supervisory trainer for the program. Al Lundgren, a former TimberWest faller, also worked diligently to help develop the program.

If weak areas are spotted, the faller can be recommended to the Workers' Compensation Board for remedial training.

"The Timber Faller Certification Program is an important evolutionary step in improving safety for our industry because it will help ensure that the people doing this dangerous work are well trained and fully qualified," says TW Vice-President of Timberland Operations John Mann, who sat on the task force which set up the BC Forest Safety Council.

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Stewardship **To foster the Company's social licence to operate.**

Performance overview

In 2004, TimberWest continued its commitment to fostering sustainable forest management, protecting water quality for domestic use and fishery values, managing environmental risk, and protecting key public environmental values and private timberland assets through a number of initiatives. TimberWest has demonstrated that Operations Excellence includes the stewardship of its lands by complying with all environmental regulations, conforming to two international certification systems, and through participating in partnerships with conservation and community organizations.

Ongoing initiatives & 2004 achievements

Maintain or enhance certification under Sustainable Forestry Initiative (SFI®) and ISO 14001 programs.

- Completed annual third party environmental audits by KPMG Performance Registrar Inc. Maintained registration under two international certifications, ISO 14001 and SFI®.
- Hired an independent consultant, Pottinger Gaherty, to conduct a field review of TW's environmental liabilities to update the Company's registry of sites and provide estimates for actions that may be required to address historic environmental issues. This review indicated that estimates provided in the Company's financial statements regarding environmental liabilities are reasonable.

Improve environmental performance.

- Continued program to have independent environmental experts review TimberWest's environmental polices and procedures. Three external experts, who specialize in wildlife, fish, water and soils, looked at adaptations made after the previous year's review and recommended further improvements to benefit TW's management of forest resources.

Maintain high standards of loss control.

- Operated without any infractions of environmental regulations.
- Continued with high standard of environmental protection measures while improving the overall state of the environment through the Company's relationships with the Pacific Salmon Foundation, Nature Conservancy of Canada, Ducks Unlimited, Marmot Recovery Foundation and many local conservation groups.
- Despite the high risk of forest fire hazard in BC in 2004, TW experienced relatively few losses due to fires. On fires that did break out, aggressive action by Company crews, TW's subsidiary Flying Tankers Inc. and the BC Forest Service limited damage on TimberWest's timberland.

Maintain excellence in watershed management program.

- Met periodically with community watershed committees, local watershed user groups and water licensees to review harvest plans and other watershed initiatives that could affect water quality within their domestic water supply areas.
- Reviewed proposed harvest plans within 118 watersheds and approved planned harvest activities on about 13,000 ha of private timberland within these watersheds.
- Completed three cycles of water quality sampling and analysis for domestic water use and fisheries values at 70 sites within sensitive watersheds on TW private lands.

Ongoing strategies & 2004 achievements

Provide employees with environmental management training and tools.
- Continued development of Terrestrial Ecosystem Mapping.
- Completed development of a GIS tool to track fish distribution and stream classification on TimberWest lands.

Work with partners to enhance the environment.
- Entered into an agreement with Forest Research Extension Partnership (FORREX) to enhance sustainable and adaptive management in BC's forests. Also contributed $5,000 to the FORREX Ecosystem Legacy Fund to support social, economic and environmental extension services.
- Continued partnership with the Pacific Salmon Foundation along with annual financial commitment of $60,000. Twenty streamkeepers groups associated with TW's private lands received funding in 2004 to carry out fish habitat stewardship programs. (See story on facing page.)
- Continued support for the Marmot Recovery Foundation through a $133,000 contribution, for a total donation of $760,000 since 2000. In 2004, due to breeding work carried out by the recovery team, the total Vancouver Island marmot population increased to 126, from 108 marmots in 2003.
- Continued agreement with the Nature Conservancy of Canada to carry out ecological assessments by the Conservation Data Centre, including the mapping of areas around Sooke, around Lake Cowichan and near Ladysmith. This mapping is done as part of the process for TimberWest and the NCC to complete agreements on the management of rare ecosystems and critical wildlife habitat features that require long-term conservation.

Support organizations and projects that improve the stewardship of resources in communities where TimberWest operates.
- Donated logs to Lake Cowichan community to build a fishing wharf and walkway along the lakeshore that will be environmentally friendly.
- Contributed to the construction of a bird-watching platform on Somenos Lake near Duncan.
- Supported Ducks Unlimited fundraising on Vancouver Island and National Forest Week activities in Duncan and Port Alberni.
- Provided financial support for a summer student at the North Island Wildlife Recovery Association.
- Donated to the BC Conservation Foundation to support the Purple Martin Recovery Program.
- Assisted with improvements to buildings at the French Creek Salmon Hatchery.
- Donated shot rock and trees to the BC Conservation Foundation to construct in-stream enhancement structures for steelhead in the Chemainus and Englishman rivers.

Support organizations and projects that improve the quality of life in communities where TimberWest operates.
- Donated over $190,000 to more than 50 community service groups throughout Vancouver Island and in Vancouver.
- In addition to direct corporate donations to the United Way, TimberWest matched employee United Way donations, which totalled more than $30,000.
- Contributed $10,000 to the BC Children's Hospital Miracle Network Telethon.
- Contributed $50,000 to the Malaspina University College Library building program.
- Donated $30,000 toward establishing a chair at Simon Fraser University in memory of former TW board member Tom Buell, a conservationist and prominent forest industry business leader.
- Of the cash donations made by TimberWest in 2004, 47% were directed to community activities, 32% to educational activities, 9% to forestry and environment, 7% to health care and safety, and 5% to sports and recreation.

Challenges in 2004

During another hot, dry summer in 2004, Flying Tankers Inc. and the crews of the Martin Mars aircraft successfully carried out their key role: protecting TimberWest's forest lands. An extensive program of air patrols and initial attack on a total of eight fires minimized losses, making 2004 the second best year financially since the Flying Tankers' inception in 1960. (In 2003, the Martin Mars aircraft set a record in assisting external customers in fire suppression activities.) A certain level of contract work is expected in 2005 based on weather conditions, forest health, and customer programs to protect forest resources.

Best practices

Three-way partnership helps fish and forests through conservation

It used to be difficult to find a single coho in Holland Creek on Vancouver Island. To make matters worse, 300-year-old cedars fell into the water as the stream banks eroded, creating a huge log-jam. The creekside trail and the old-growth stand were in jeopardy.

Today, the scene has changed remarkably thanks to community support, volunteer efforts from the members of the Ladysmith Sportsmen's Club and a $10,000 grant from TimberWest and the Pacific Salmon Foundation.

"We confined a creek that had caused some serious erosion problems and restored it to its historic levels. At the same time we created some wonderful habitat for adult and juvenile coho and saved a forest," says Dave Clough, a consulting biologist for Fisheries and Oceans' Community Programs who prepared the restoration plans for the project.

Every year since 2002, TimberWest has granted $60,000 to the PSF to be used for stream rehabilitation or conservation projects on or near TW's private lands. The foundation manages the funding, while the projects are carried out by local community groups, significantly adding to the value of the Company's donations. Since the TW/PSF partnership began, more than 40 conservation projects have been completed, about half of them in 2004.

Saving a stream (L–R): TW Biologist Dave Lindsay, Dave Clough, consulting biologist for Fisheries and Oceans, and volunteer Rick Hodson worked together to restore Holland Creek.

In another 2004 TW/PSF initiative, the upper Quinsam River was opened up by removing a set of falls to provide enough new habitat for an additional 45,000 pink salmon to spawn. Other projects included helping the Cowichan Lake Salmonid Enhancement Society with projects in Sutton Creek and upgrading facilities at their volunteer hatchery; supporting the Greenways Land Trust with a habitat enhancement project in the Campbell River estuary; and enabling the Simms Creek Stewardship Society to construct a rock weir and pond and to make their trail wheelchair-friendly.

"The strong partnership between Pacific Salmon Foundation and TW plays an important, ongoing role in conserving and restoring wild salmon populations in BC. We should be proud of the volunteers and the successful projects we have been able to co-fund through the PSF Community Salmon Program over the past three years," says Alan Kenney, PSF director of salmon programs.

IRAS recognized for stewardship

TW's Integrated Resource Analysis Section (IRAS) has been honoured with a 2003–04 Forestry Stewardship Recognition Award from Wildlife Habitat Canada. WHC is a non-profit agency which funds stewardship projects across the country.

WHC noted that the award recognizes IRAS staff's "excellent work to ensure that all concerns for non-timber values, from water quality to wildlife, are addressed before any harvesting is carried out."

"IRAS has existed within TimberWest and its predecessor companies for more than 30 years. This is a testament to TimberWest's long-term commitment to forest resource values beyond timber," says TW's Hydrology and Terrain Specialist, Al Chatterton, a member of the IRAS team. "This award is validation that the work we do is both valuable to our forests and its importance is understood by those outside of IRAS."

2005 Targets

As the Company moves to the contractor model, TimberWest is adapting environmental management systems to synchronize with those that contractors have in place. To ensure that its stewardship goals are met, TW will monitor planning implementation and all forest management activities conducted by contractors. In 2005 the Company will:

- Continue stewardship and water quality programs and maintain certification.
- Finalize the Terrestrial Ecosystem Mapping, which will result in TW's private lands having the most comprehensive land and forest classification system available.
- Continue inventories of red-listed species such as the Queen Charlotte goshawk and the marbled murrelet.

Key issues in 2004

Softwood Lumber Dispute

The year 2004 was one of steady technical improvement for Canadian interests in the softwood lumber file. The NAFTA injury determination released in August found that the US International Trade Commission (ITC) had not made a convincing case that Canadian lumber exports are injuring the US industry. At the same time, the World Trade Organization found that the US methodology used to determine the existence of dumping margins was flawed. Shortly thereafter, the US Department of Commerce announced that the countervail duties and anti-dumping duties would be reduced more than 50%. Taken together, these results raised hopes that Canada might see a complete reversal and enjoy the return of escrowed duties.

The US industry was clearly set back by these decisions, but vowed to appeal any and all negative findings, and if these appeals were not successful, to re-start the process by filing yet another Countervail Duty petition. In October, the US filed a petition seeking to overturn the NAFTA panel's negative injury finding to a NAFTA "extraordinary challenge committee."

A number of decisions and actions took place between November 2004 and the present. None resulted in any substantial changes in the current state of play.

Because of the uncertainty, time and cost of this convoluted process, many industry and government officials on both sides of the border continue to believe that a negotiated settlement is the best way to implement a permanent solution. An exploratory meeting between industry executives from both countries is tentatively scheduled for early 2005. The purpose is to discuss how and where negotiations would be conducted and to determine the level of interest in proceeding with talks. While encouraging, this development must be viewed as the start of a complicated process with significant political risks.

TimberWest believes that a negotiated settlement that gives the BC coast equal access to the US lumber market and removes restrictions on private log exports would be positive for the Company.

Notice 102

The export of private land logs out of BC is restricted by the federal government's surplus test, Notice 102. This test requires that private forest owners offer logs for sale first in BC at domestic prices (which are typically lower than export prices), and only if there is no buyer in BC can the logs be sold outside of the country. This restriction applies only in BC. Private forest owners in all other provinces, and in the US, are free to sell their logs to any customer they choose.

The price premium earned by selling private land logs into the export market represents more than half the cash generated by the Company's timberland operations. The ability to export private land logs has also played a key role in keeping employees working. Selling logs at higher international prices allows owners of private land to harvest stands that would otherwise be uneconomic.

Forcing private forest landowners to sell logs to domestic sawmills at prices lower than international prices transfers the value from the tree grower to the processors, impairs the value of private timberlands in coastal BC and reduces pricing on Crown logs sold in coastal BC.

The Company has been hopeful that this matter will be resolved as part of an agreement between the US and Canada on softwood lumber. But given the lack of progress, we continue our activities on the legal front. In 2001 TimberWest filed a statement of claim in the Federal Court of Canada challenging the validity of the private land log export restrictions that apply only to BC, seeking a declaration that the provisions are of no force and effect. A trial date is expected to be set for the second half of 2005.

Forest Policy Reforms

In 2004, the BC government made progress in implementing policy changes to introduce market forces to the coastal BC forest industry. These include the elimination of appurtenancy, cut control, 5% tenure takebacks on a change of control and the Province's veto on a transfer of tenure or mill closure; making tenure divisible; and a 20% takeback of Crown tenure to secure fibre for First Nations groups and the auctions required for a market-based stumpage system.

The government also enacted the new Forest and Range Practices Act in January 2004, introduced market-based stumpage in February, and in June revised the Timber Harvesting Contract and Subcontract Regulation (Bill 13) under the Forest Act to ensure harvesting rates are market driven.

Policy reforms provided TimberWest the opportunity to sell TFL 46 without being subject to a 5% tenure takeback. The reallocation of Crown timber tenures resulted in a reduction in annual allowable cut of 201,000 m^3 from TimberWest's replaceable licences, including 33,000 m^3 from TFL 47 and 168,000 m^3 from TFL 46, which was sold in 2004. The area of TimberWest's timber licences will also be reduced by 20%.

Since a cornerstone of the policy reform is the new market-based system, the Company encourages the BC government to complete the tenure takeback process and expand the timber sales program so market forces are allowed to prevail.

New Collective Agreement

In December 2003, the provincial government appointed Don Munroe as mediation-arbitration commissioner to examine the issues facing the coastal forest industry and issue a binding award for a new collective agreement between industry and the IWA (now USWA). This appointment was welcomed by both the IWA and the coastal forest industry's bargaining unit.

Munroe's terms of reference called upon him to consider the need for terms and conditions of employment that are "consistent with the economic viability and competitiveness of the coastal forest industry in both the short and long term, the importance of good labour-management relations and the interests of the employees and trade unions."

In May, Munroe released his award, which provided employees with wage increases, higher pension contributions, potential bonuses, increases to seniority retention and enhanced severance pay while, at the same time, providing some important modifications to work scheduling, reductions in travel time and the ability to transfer work to full-phase contractors.

As a result, TimberWest transformed its business into a more focused forest land management company by restructuring harvesting operations. Previously, 50% of TimberWest harvesting had been done by contractors. After the Munroe award, TimberWest moved quickly to contract the remainder of its logging to unionized contractors on a competitive-bid basis. The transition was completed by the end of 2004.

CONTENTS

Management's Discussion & Analysis

Management's discussion and analysis provides an overview of TimberWest Forest Corp.'s business operations, as well as an examination of significant developments that have affected TimberWest's financial condition and results of operations for 2004 relative to 2003. Factors that could affect future operations are also discussed. These factors may be affected by known and unknown risks and uncertainties that may cause the actual future results of TimberWest to be materially different from those expressed or implied in this discussion.

This discussion and analysis should be read in conjunction with TimberWest's annual consolidated financial statements and the accompanying notes. TimberWest's annual consolidated financial statements include the accounts of TimberWest Forest Corp. and its subsidiaries, are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are expressed in Canadian dollars. Certain comparative financial figures presented have been reclassified to conform to the presentation adopted in the current year.

Throughout this discussion and analysis reference is made to distributable cash and earnings available for distribution. Distributable cash and earnings available for distribution are considered key measures by TimberWest in evaluating the Company's operating performance and its ability to meet distribution requirements on its Stapled Units held by unitholders. Distributable cash and earnings available for distribution are measures that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. A reconciliation of net earnings as determined in accordance with GAAP and both earnings available for distribution and distributable cash is provided under "Results of Operations" in this management's discussion and analysis.

This management's discussion and analysis has been prepared based on information available as at February 8, 2005, except where otherwise indicated.

Additional information relating to TimberWest, including the Company's Annual Information Form and other statutory reports, can be found on the System for Electronic Document Analysis and Retrieval (SEDAR), at http://www.sedar.com.

About TimberWest

TimberWest Forest Corp. (TimberWest or the Company) was incorporated on January 31, 1997. In June 1997, the Company acquired the coastal assets of TFL Forest Ltd. (formerly TimberWest Forest Limited), including 210,000 hectares of private timberlands, Crown timber tenures and lumbermill operations, all largely located on Vancouver Island, British Columbia. In December 1997, the Company acquired Pacific Forest Products Ltd.'s 124,000 hectares of private timberlands, also largely located on Vancouver Island.

With its timberland asset base, TimberWest is well positioned as the largest owner of private forest lands in Western Canada. The majority of the Company's 334,000 hectares of private forest lands support the growth of Douglas fir, a premium tree species sought after for structural purposes. While ensuring that rigorous environmental and conservation practices for wildlife, water quality protection, biodiversity conservation and a wide range of other conservation goals are applied, the Company has established that these lands can sustain a long-term harvest of 2.5 million m^3 of logs per year.

TimberWest currently holds renewable long-term public tenures which provide the Company with the right to harvest 0.8 million m^3 of logs per year from Crown lands. The management practices applied to these lands meet the stringent requirements of the Forest Practices Code of British Columbia Act and the Forest and Range Practices Act. In September 2003, TimberWest initiated an auction process for the sale of one of its tree farm licences, Tree Farm Licence 46 (TFL 46), and associated timber licences, and in May 2004 completed the sale of these assets. TFL 46 represented timber rights to an annual allowable cut of approximately 0.5 million m^3 on 76,574 hectares of Crown land and had been operated by TimberWest as part of its Honeymoon Bay operation on southwest Vancouver Island.

TimberWest operates a lumbermill at Elk Falls on Vancouver Island that processes lower-value logs primarily sourced from public tenures. In addition, approximately 6,000 hectares of TimberWest's private forest lands have been identified as having greater value as real estate properties and are progressively being made available for sale.

Industry Overview

TimberWest operates exclusively in the solid wood segment of the forest industry, engaged primarily in the harvesting and sale of logs. The Company is unique in that most of its log production is sold on the open market, which provides considerable flexibility to meet market opportunities. In fiscal 2004, the sale of logs accounted for approximately 71% of the Company's revenue.

The forest industry on the BC coast is in a state of transition and has undergone many changes in the regulatory and labour environments. The industry is in the process of rationalizing and restructuring, and some new investment is being made. Approximately two-thirds of TimberWest's annual log sales are to log processing facilities on the BC coast. Therefore a strong, competitive sawmilling industry in this region will favourably impact the market for both private and public land logs.

In the export market, TimberWest is well positioned to supply fibre to a diverse base of customers who participate in the two largest wood-based housing markets in the world, the United States (US) and Japan. TimberWest's position in the supply chain as a net seller of logs provides the Company considerable flexibility in the harvesting and sale of its timber resources.

TimberWest's Vision & Strategy

TimberWest is a market-driven company with a vision of "Growing greatest value through Operations Excellence."

The Company's vision was developed as a result of extensive analyses undertaken in 2001, which included an examination of the competitive dynamics of the forest industry in which TimberWest operates, an assessment of the Company's strengths, weaknesses, opportunities and threats in this industry context, and a determination of the Company's core competencies.

This analysis led to the development of a five-year strategic plan, updated annually, under which TimberWest presently operates. A key conclusion drawn from these analyses was that TimberWest's first priority is to enhance the performance of its existing business units under a strategy focused on "Operations Excellence." Key tenets of Operations Excellence include operating in a safe and sustainable fashion, a strong emphasis on environmental stewardship, and improvements in financial performance through market diversification, cost reductions and strategic silviculture investments.

While all of the Company's operations are integral to the success of each other, strategic objectives have been identified for each area and are described below.

TimberWest's Business

Private timberlands

Private timberlands refer to the portion of timberland assets that TimberWest owns in fee simple. Private land ownership has been an advantage as the harvesting flexibility has enabled the Company to quickly respond to changing market conditions. Wood harvested from private land is in most cases exportable, albeit with some restrictions, and this has resulted in much higher average sales realizations than those achieved in the domestic market. In addition, these lands have lower operating and regulatory costs than public lands and have a more valuable species mix that is predominantly Douglas fir. As a result, these lands have generally allowed the Company to generate consistent returns in difficult markets in past years. These returns have been steady, predictable and relatively controllable for TimberWest compared to returns from public lands and log processing.

TimberWest's primary business strategy has been the pursuit of Operations Excellence with its existing basket of assets. As the Company is successful in achieving sustainable reductions in unit costs, it will explore other ways to

complement the asset base to increase value. As a low cost producer, the Company is now in a position to turn its attention to accretive acquisitions.

In June 2004, TimberWest announced a plan to transform its private timberland business model through a restructuring of the Company's log harvesting operations and a move to contract all logging activities. Historically, 50% of the Company's log harvesting was performed by contractors. Under the transformation plan, the Company has contracted the remainder of its logging activities to unionized contractors on a competitive-bid basis, effective January 1, 2005.

The transformation of the Company's logging activities to a contractor model is considered a natural progression of the Company's Operations Excellence strategy as it is expected to provide increased flexibility, a reduced cost base and an operating structure more closely aligned with industry norms in the rest of North America. This change is expected to improve the Company's competitiveness over the long term. Going forward, the Company's focus will be on core timberland management functions including timber inventory, strategic silviculture investments, harvest planning, and the marketing and sales of timber products.

Public lands

TimberWest's Crown tenures represent approximately 25% of the total company harvest. These operations have not had consistent profitability since the inception of the Company. The major issue is not only the variability in historic performance but also the uncertainty surrounding future performance in light of both market and regulatory change. Tenure reform, along with ongoing restructuring in the coastal industry, brings uncertainty but also the opportunity that comes with change.

In May 2004, the Company completed the sale of TFL 46 and associated timber licences. Under the agreements for the sale of TFL 46, TimberWest has retained the right to acquire fibre from the purchaser in order to meet obligations under certain fibre supply agreements.

TimberWest is committed to its strategy of Operations Excellence on its remaining public lands. The Company's short- to mid-term focus is on reducing operating costs within public land operations and working with other industry stakeholders to reduce other costs of these operations.

Lumbermill operations

TimberWest has a single lumber manufacturing facility, the Elk Falls Lumbermill located at Campbell River, BC. The Elk Falls facility includes a lumbermill, an integrated chipping facility, a planer mill and drying kilns. The lumbermill processes medium-diameter logs either harvested from TimberWest's logging operations or traded or purchased specifically for this operation. Operating at three shifts per day, the lumbermill produced 180 million board feet of lumber and 0.3 million m^3 of wood chips in fiscal 2004.

Integral to maximizing the value of the Company's timberland assets is access to conversion facilities that can pay global prices for fibre. The strategic objective for the Elk Falls Lumbermill is to continue to improve its competitiveness by enhancing and diversifying its product mix to a variety of markets and improving its productivity and cost competitiveness. Being the lowest-cost producer possible will allow the mill to compete with the highest bidders for fibre and thereby help maximize the value of the Company's timberland base. The mill has made progress on increasing productivity and lowering unit costs, but as yet is not globally competitive.

Higher-use properties & other revenue streams

TimberWest has a portfolio of higher-use properties that comprise approximately 6,000 hectares at any one time. These properties are identified as TimberWest determines them to have a higher value to other owners. This portfolio has grown since inception, in hectares and in value, but this may not always be the case. Real estate conditions as well as timberland conditions change over time, which can cause the value and size of the higher-use property portfolio to change.

TimberWest's land holdings also have potential value to be realized from other uses, such as coal bed methane gas and mineral rights.

TimberWest is committed to exploring opportunities to create additional value from its existing land base, including participation in real estate activity and the development of other revenue streams where value may be added.

Key Performance Drivers

Each year the Company establishes quantifiable performance targets for each of its Operations Excellence principles and communicates progress toward these targets to employees and unitholders on a quarterly basis.

The Company's focus is on improving financial performance. As TimberWest operates in an international commodity market, the Company has separated this objective into two areas of concentration: market diversification and cost reduction.

Under market diversification, the Company's goal is to diversify its markets to maximize the return on every log produced and strives to achieve this goal by finding the right customer for each log and thereby obtaining the highest value for the Company's timber resources.

In the area of cost reduction, the Company continues to benchmark contractor performance to ensure the Company can achieve the highest efficiency possible in order to place operations in the top quartile of industry performance, and to ensure that the Company remains competitive on a global basis.

TimberWest is committed to ensuring that financial returns do not come at the expense of safety and environmental performance. The Company has established performance measures for these variables that are continually monitored to ensure initiatives aimed at improving the Company's return-to-log are carried out by employees and contractors in a safe and sustainable manner.

Capability to Deliver Results

Financial capability

TimberWest is conservatively financed and has a low cost of capital. The Company has a debt-to-total capitalization ratio of 19% and has considerable financial flexibility in distributing cash to its unitholder base and for investing in the Operations Excellence strategy where required. Within the past year, the Company accessed the Canadian bank market for refinancing on favourable terms.

Non-financial capability

TimberWest has a highly skilled workforce — from its management team and its Board of Directors through to employees and contract crews. During the past year, the Company's management team worked well together and is solidly aligned with TimberWest's strategic direction. The Company also has effective internal control and management information systems that ensure optimal decisions are being made and that relevant and timely information is being disclosed to the capital markets. TimberWest has invested in people, equipment, roads and inventory at appropriate levels to ensure that production can respond to changing market conditions.

Highlights & Significant Transactions

Business Transformation

On June 24, 2004, the Company announced a plan to transform its business model through a restructuring of the Company's log harvesting operations and a move to contract all logging activities. Historically, 50% of the Company's log harvesting was performed by contractors. Under the transformation plan, the Company has contracted the remainder of its harvesting and road building activities to unionized contractors on a competitive-bid basis, effective January 1, 2005.

The Company's timberland operations employees were affected by this change. The Company's former 430 hourly employees continue to be represented by the United Steelworkers of America (formerly Industrial, Wood & Allied Workers of Canada), and many were hired by contractors who continue to recognize the seniority these employees had with the Company. Roles and responsibilities of certain salaried employees have also changed and some 20 salaried positions were eliminated. Certain facilities were also closed. Operating earnings for the year ended December 31, 2004, include an expense of $4.6 million for costs relating to this restructuring.

As part of the Company's business transformation initiative, the Company has undertaken to buy out the leases on all leased logging equipment and anticipates completing this task in early 2005. This equipment will in turn be disposed of to logging contractors working for the Company. Obligations under lease commitments for this equipment were approximately $10.7 million as at December 31, 2004.

The transformation of the Company's logging activities to a contractor model is considered a natural progression of the Company's Operations Excellence strategy as it is expected to provide increased flexibility, a reduced cost base and an operating structure more closely aligned with industry norms in the rest of North America. This change is expected to improve the Company's competitiveness over the long term. Going forward, the Company's focus will be on core timberland management functions including timber inventory, strategic silviculture investments, harvest planning, and the marketing and sales of timber products.

Sale of Tree Farm Licence 46

On May 6, 2004, the Company completed the sale of its southern Vancouver Island public land operations, referred to as TFL 46, for a sale price of $17.9 million. The decision to sell TFL 46 was announced late in the third quarter of 2003 and the sale was undertaken through an auction process with qualified bidders. TFL 46 represented part of the Company's public land logging business, including timber rights to an annual allowable cut of approximately 0.5 million m^3 on 76,574 hectares of Crown land, and had been operated by TimberWest as part of its Honeymoon Bay operation on southwest Vancouver Island.

Under the terms of the sale, $0.4 million of silviculture liabilities were assumed by the purchaser and leased equipment with a value of $6.0 million was transferred to the purchaser. In addition, this transaction resulted in a reduction in the Company's working capital of approximately $8.0 million. Further, some 113 hourly and seven salaried employees associated with this operation were transferred to the purchaser.

The decision to sell TFL 46 was based on a strategic review of the Company's portfolio of assets and a focus on maximizing returns to unitholders. The completion of this transaction allows the Company to pursue its strategic objective of focusing on becoming a forest land management company.

Increase in Long-run Sustainable Yield

On October 19, 2004, the Company announced an increase in the long-run sustainable yield on its private timberlands, from 2.3 million m^3 to 2.5 million m^3, on the basis of improvements in the underlying growth rates of the forest inventory due to yield increases from a range of silviculture practices. The computation of the Company's revised

long-run sustainable yield will be audited by the Company's external SFI® auditor, KPMG Performance Registrar Inc., in the first half of 2005.

Extraordinary Item – Expropriation Settlement Proceeds

On September 24, 2004, the Company received $14.0 million from the Province of British Columbia as settlement for the 1995 expropriation of timber harvesting rights in the Walbran Valley and Hitchie Creek areas for park creation purposes under the Park Amendment Act, 1995 (British Columbia). The $14.0 million proceeds from this settlement have been accounted for as an extraordinary item in the consolidated statements of earnings, net of $5.0 million in income taxes effected at statutory tax rates. As the Company has non-capital losses carried forward from previous taxation years, no cash income taxes will be payable on the proceeds from this settlement. The future income tax recovery before the extraordinary item for the year ended December 31, 2004, has been increased by $5.0 million to recognize the benefit of the losses utilized and fully offsets the tax expense charged to the extraordinary item.

Pension Valuation

The triennial actuarial valuation of the Company's pension obligations for funding purposes, as at December 31, 2003, was completed during the first quarter of 2004. This valuation identified a going-concern deficit of $3.9 million and a solvency deficit of $5.1 million for the Company's defined benefit pension plans. Based on the results of the valuation, commencing in 2004 the Company is required to fund annual current service costs of approximately $1.4 million, including required contributions under the defined benefit plans and the defined contribution plan. In addition, the Company is required to fund the deficit position in the defined benefit plans with annual costs of approximately $1.2 million. The cash contribution related to pension expense deducted from distributable cash for fiscal 2004 was $2.8 million.

Accounting Policy Changes

Generally accepted accounting principles

Effective January 1, 2004, the Canadian Institute of Chartered Accountants (CICA) introduced new recommendations under CICA Handbook Section 1100 — *Generally Accepted Accounting Principles*, which, among other things, provides guidance on alternative sources to consult when an issue is not specifically addressed by Canadian GAAP. Previously, the Company, along with others in the forest industry, presented lumber sales net of shipping, handling costs and countervailing and anti-dumping duties. In addition, the Company previously presented shipping and handling costs recovered from customers on log sales netted against cost of sales. As a result of applying these recommendations, shipping and handling costs recovered from customers are included in sales, while shipping and handling costs incurred are included in cost of sales. Further, countervailing and anti-dumping duties have also been reclassified to cost of sales in accordance with this new GAAP standard. The prior period has been reclassified for comparability. For information purposes, as a result of the reclassification of these amounts, sales and cost of sales reported for the year ended December 31, 2004, are $21.5 million higher (2003 — $16.9 million) than they would have been had this reclassification not been made. This change has no effect on operating earnings, net earnings or cash flows.

Asset retirement obligations

Effective January 1, 2004, the Company adopted the recommendations of the CICA Handbook Section 3110 — *Asset Retirement Obligations.* Section 3110 establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. Under this new standard, asset retirement obligations must be recognized at their fair value in the period in which they are incurred if a reasonable estimate of the fair value can be made, with fair value of a liability determined with reference to the present value of estimated future cash flows. The amount of the liability is subject to re-measurement at each reporting period. This standard changed the Company's accounting for silviculture liabilities accrued for future reforestation costs. This change in accounting policy has been applied retroactively, however, there has been no material effect on the Company's consolidated financial statements.

The Company may have additional asset retirement obligations, however, the recommendations of this new standard have not been applied to assets with indeterminate useful lives as the associated asset retirement obligations are not reasonably estimable and therefore the fair value of the liabilities cannot be established.

Employee future benefits

During 2004, the Company adopted amendments to CICA Handbook Section 3461 — *Employee Future Benefits.* Section 3461 establishes standards for the recognition, measurement and disclosure of the cost of employee future benefits. In January 2004, the CICA amended Section 3461 to require additional disclosures about the assets, cash flows and net periodic benefit cost of pension and other post-retirement benefit plans. The new annual disclosures are effective for years ending on or after June 30, 2004, and new interim disclosures were effective for periods ending on or after that date. The additional disclosures required for the Company's pension and other post-retirement plans are presented in note 14 of the annual consolidated financial statements.

Impairment of long-lived assets

Effective January 1, 2004, the Company adopted the new recommendations of CICA Handbook Section 3063 — *Impairment of Long-lived Assets.* Section 3063 establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets by profit-oriented enterprises. The new recommendations require the Company to test long-lived assets for impairment in value whenever events or changes in circumstances indicate their carrying value may not be recoverable. An impairment loss is recognized if at the date it is tested for impairment, the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and/or eventual disposition. If an impairment loss exists, the loss is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value. Adoption of this standard resulted in no effect on the Company's consolidated financial statements.

Future Accounting Standard Change

Liabilities & equity

Effective January 1, 2005, the Company will adopt amendments to CICA Handbook Section 3860 — *Financial Instruments: Disclosure and Presentation.* Section 3860 establishes standards for the balance sheet presentation of financial instruments or their components as liabilities or equity. The revision to Section 3860 requires obligations that may be settled at the issuer's option by a variable number of the issuer's own equity instruments to be presented as liabilities. The revision is effective for all fiscal years beginning on or after November 1, 2004.

The revision to Section 3860 will have a considerable effect on the financial statement presentation of the Company's Stapled Units and the distributions paid thereon, despite the fact that the Company's financial condition and economic underpinnings remain unchanged. The calculation of distributable cash generated by the Company will not be affected by this revision.

The Company's Stapled Units are a unique equity instrument, consisting of one common share, 100 preferred shares and approximately $8.98 face amount of Series A Subordinate Notes. These components are "stapled" together as a single unit and trade together on the Toronto Stock Exchange as Stapled Units. Components cannot be transferred except with each other as part of a Stapled Unit. The Company has historically classified all components of the Stapled Unit as equity on its balance sheet as the Company's Subordinate Notes have a "Common and/or Preferred Shares Payment Election." This election provides the Company with the option to satisfy its obligation to pay any interest on the Subordinate Notes by delivering common and/or preferred shares, and with the option to pay the principal amount of the outstanding Subordinate Notes by delivering common shares.

Given that the number of shares required to retire the Subordinate Note component is not fixed, the revision to Section 3860 requires that the Company reclassify the Series A Subordinate Note component of the Stapled Unit from equity to liabilities. Had the revision to Section 3860 been implemented by the Company at December 31, 2004, the reclassification of the Subordinate Note component of the Stapled Units from equity to liabilities would have been $690.5 million (2003 — $684.6 million).

Further, holders of the Company's Stapled Units are entitled to annual interest payments on the Subordinate Note component of approximately $1.08. For the same reason that the Subordinate Note component is currently classified as equity on the Company's balance sheet, interest payments on Stapled Units are currently charged directly to retained earnings, on an after-tax basis, as a distribution similar to dividends on common shares. The revision to Section 3860 will require distributions on Stapled Units to be reported, on a pre-tax basis, as an interest expense on the statement of operations. This revision also requires the tax benefit provided by the distributions to be reported as a component of the income tax provision on the statement of operations. Distributions on Stapled Units for fiscal 2004 were $82.5 million (2003 — $82.1 million) and the tax benefit recognized thereon was $29.3 million (2003 — $17.4 million). Had the revision to Section 3860 been implemented by the Company at December 31, 2004, a net charge to earnings of $53.2 million (2003 — $64.7 million) would have been required for the year ended December 31, 2004.

Overview of 2004 Performance

The year ending December 31, 2004, was a milestone year for TimberWest. The Company not only delivered strong financial results, it also transformed its business into a more focused forest land management company.

In 2004, TimberWest generated its highest level of distributable cash since inception, a notable achievement in consideration of the rapid rise in the value of the Canadian dollar relative to its US counterpart during the year.

The Company's overall operating margin increased to 20% for 2004, up from 13% in 2003, with the current year benefiting from improvements in end markets for both logs and lumber products and from a continued focus on operational cost reductions.

Distributable cash generated in 2004 was also favourably affected by proceeds from the sale of property, plant and equipment, including the proceeds from the sale of higher-use properties and from the sale of TFL 46; a return to normal capital expenditure levels; and the receipt of

$14.0 million as settlement from the government of BC for the 1995 expropriation of timber harvesting rights in the Walbran Valley.

Operationally, the highlight of the year was the Company's success in transforming its business into a more focused forest land management company. This process began in 2003 with the announcement of the Company's intent to sell TFL 46 and, going forward, to focus on the core business of private timberland management.

The process continued in 2004 when the Company announced a plan to transform its business model through a restructuring of the Company's log harvesting operations and a move to contract all logging activities. TimberWest's experience with competitive bidding and evidence from other jurisdictions demonstrated that moving logging activities to contractors would provide the Company with increased flexibility and a reduced cost structure. The Company moved quickly to restructure its harvesting operations by competitively bidding the road building and timber harvesting activities that were still being done by Company crews to unionized contractors, after being awarded the right to do so in May 2004 in its new collective agreement. This transition was completed by the end of 2004.

TimberWest is the first major forest company on the BC coast to contract all of its harvesting and road building operations. This move aligns TimberWest's business model with industry norms in the rest of North America and is expected to improve the Company's competitiveness in a way that is sustainable over the long term.

TimberWest has ensured that the necessary safeguards are in place with the Company's contractual arrangements to ensure that new contractors operate to TimberWest standards of performance when it comes to issues of safety, the environment, and log quality and merchandizing.

Selected Annual Financial Information

The following table presents selected financial information from TimberWest's audited consolidated financial statements for the last three completed fiscal years. This data should be read in conjunction with TimberWest's audited consolidated financial statements for the year ended December 31, 2004, and the accompanying notes. Certain of the prior years' figures have been reclassified to conform to the current year's presentation.

(in millions of dollars except per common share amounts)	2004	2003	2002
Sales	$ 477.0	$ 445.4	$ 481.1
Earnings before extraordinary item	$ 67.9	$ 24.8	$ 39.3
Extraordinary item, net of applicable income taxes	$ 9.0	$ –	$ –
Net earnings	$ 76.9	$ 24.8	$ 39.3
Basic and diluted earnings (loss) before extraordinary item per common share	$ 0.19	$ (0.52)	$ (0.21)
Extraordinary item, net of applicable income taxes, per common share	$ 0.12	$ –	$ –
Basic and diluted net earnings (loss) per common share	$ 0.31	$ (0.52)	$ (0.21)
Total assets	$ 1,434.5	$ 1,440.9	$ 1,478.3
Total long-term financial liabilities	$ 195.0	$ 195.0	$ 130.0
Interest payments on Series A Subordinate Notes held by unitholders	$ 82.3	$ 82.1	$ 78.9

2004 vs. 2003

The increase in sales of $31.6 million in 2004 was due primarily to a 29% increase in the volume of lumber sold in 2004 compared to 2003. Global markets for logs and lumber were stronger in 2004 whereas adverse market and economic conditions prevailed throughout 2003 and unfavourably affected sales that year. The increase in lumber sold in 2004 also reflects increased production as the result of capital improvements undertaken in 2003 and the full-year effect of adding a third shift to the mill during 2003.

Earnings before extraordinary item were $43.1 million higher in 2004 than 2003. This positive variance primarily reflects the effects of improvements in end markets and higher average realizations on both log and lumber sales, as well as a continued focus on operational cost reductions and the resultant effect on cost of sales. Earnings for 2004 also benefited from a $4.3 million gain on the sale of TFL 46, one of the Company's Crown tenures.

In 2004, the Company received $14.0 million in proceeds from the Province of British Columbia as settlement for

the 1995 expropriation of timber harvesting rights in the Walbran Valley. This settlement has been accounted for as an extraordinary item, net of $5.0 million in income taxes effected at statutory tax rates.

For the year ended December 31, 2004, the Company generated net earnings of $76.9 million compared to net earnings of $24.8 million for fiscal 2003. As noted above, this improvement can be attributed to stronger markets, increased lumber sales, proceeds from the sale of TFL 46 and expropriation settlement proceeds received in 2004.

The Company's financial position as at December 31, 2004, was stronger than as at December 31, 2003, as reflected by year-over-year improvements in the current and debt-to-total capitalization ratios. Total asset and long-term financial liability balances remained comparable for both 2004 and 2003. Current ratio and debt-to-total capitalization ratio are measures that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. Management believes that presentation of these measures will enhance an investor's understanding of the Company's balance sheet strength and capital structure.

Interest payments on the Series A Subordinate Note component of Stapled Units held by unitholders were consistent at $1.08 per Stapled Unit for both 2004 and 2003. The increase in the total amount paid reflects an increase in the number of Stapled Units outstanding during 2004 due to the exercise of Stapled Unit options.

2003 vs. 2002

Sales for 2003 were $35.7 million less than in 2002, primarily due to a $38.1 million decrease in log sales revenue in 2003 resulting from a 10% decrease in average log sales realizations for that year. Approximately half of this variance can be attributed to strengthening of the Canadian dollar during 2003, while the remainder was due to weaker markets and a lower-value species and end-use sort mix. In addition, 2003 real estate revenues were $8.3 million lower than those reported for 2002. Property sales in 2002 were considered unusually high as they included proceeds of $11.2 million from the sale of the Company's Earle Creek property. Increased production at the Elk Falls Lumbermill translated into higher sales for lumber and wood chips in 2003 compared to 2002 and partially offset the decreases noted above.

Net earnings were $14.5 million lower in 2003 than 2002. The effects of weaker economic and market conditions on sales were compounded by the effects of a severely dry summer and labour issues, and the subsequent adverse effect on 2003 operating earnings of market, weather and labour-related curtailments taken in that year. The effect of these factors was greater than implied by the year-over-year decrease in net earnings, as 2002 net earnings were also adversely affected by a $9.8 million restructuring charge and a $5.0 million loss on a bond lock transaction recorded in that year.

The Company's total assets as at December 31, 2003, were $37.4 million lower than as at December 31, 2002. This decrease was primarily due to a $9.7 million decrease in accounts receivable and a $21.6 million decrease in inventory from 2002 due to lost production and less product available for sale late in 2003 as a result of labour-related work stoppages in November and December of 2003.

Long-term financial liabilities increased $65.0 million in 2003, reflecting an add-on to the Company's existing $130.0 million debenture issue by a public offering for an additional $65.0 million aggregate principal amount of 7% unsecured senior debentures. The combined obligation of $195.0 million is due October 1, 2007.

Interest payments on the Series A Subordinate Note component of Stapled Units held by unitholders were $3.2 million greater in 2003 than in 2002. This increase reflects a consistent payment amount of $1.08 per Stapled Unit for both 2003 and 2002, and an increase in the weighted average number of Stapled Units outstanding in 2003, reflecting the effect of a public equity offering for 11,190,650 Stapled Units completed in early 2002.

Results of Operations

Distributable Cash

The following table presents distributable cash generated by TimberWest for the year ended December 31, 2004, in comparison to distributable cash generated for the years ended December 31, 2003, through December 31, 2000.

(in millions of dollars except per Stapled Unit amounts)	2004	2003	2002	2001	2000
Consolidated Statements of Distributable Cash					
Net earnings	$ 76.9	$ 24.8	$ 39.3	$ 44.6	$ 204.9
Income tax benefit related to distributions	29.3	17.4	26.7	29.4	32.6
Earnings available for distribution[1]	106.2	42.2	66.0	74.0	237.5
Future income tax recovery on earnings before extraordinary item	(12.4)	–	(0.2)	(15.2)	(170.8)
Future income tax expense on extraordinary item	5.0	–	–	–	–
Write-down of property, plant and equipment and related costs	–	–	–	–	1.3
Earnings available for distribution before provision for future income taxes and write-down of property, plant and equipment and related costs	98.8	42.2	65.8	58.8	68.0
Add (deduct):					
Depreciation, depletion and amortization	11.2	11.2	15.2	17.0	17.1
Proceeds from sale of property, plant and equipment	33.3	11.4	19.4	12.4	11.3
Proceeds from sale of other assets	–	–	–	–	4.2
Gain on sale of property, plant and equipment	(12.4)	(3.7)	(3.9)	(2.5)	(2.0)
Additions to property, plant and equipment	(8.5)	(18.0)	(11.5)	(7.3)	(10.3)
Other non-cash items	2.8	8.3	5.1	5.1	0.9
	26.4	9.2	24.3	24.7	21.2
Distributable cash[1]	$ 125.2	$ 51.4	$ 90.1	$ 83.5	$ 89.2
Consists of:					
Distributable cash before extraordinary item	$ 111.2	$ 51.4	$ 90.1	$ 83.5	$ 89.2
Distributable cash from extraordinary item	14.0	–	–	–	–
	[illegible]	$ 51.4	$ 90.1	$ 83.5	$ 89.2
Basic and diluted earnings available for distribution before provision for future income taxes and write-down of property, plant and equipment and related costs per weighted average Stapled Unit[1]	*$ 1.29*	*$ 0.55*	*$ 0.88*	*$ 0.90*	*$ 1.02*
Basic distributable cash per weighted average Stapled Unit[1]					
— before extraordinary item	*$ 1.46*	*$ 0.67*	*$ 1.21*	*$ 1.29*	*$ 1.34*
— from extraordinary item	*0.18*	–	–	–	–
	$ 1.64	*$ 0.67*	*$ 1.21*	*$ 1.29*	*$ 1.34*
Diluted distributable cash per weighted average Stapled Unit[1]					
— before extraordinary item	*$ 1.45*	*$ 0.67*	*$ 1.20*	*$ 1.29*	*$ 1.34*
— from extraordinary item	*0.18*	–	–	–	–
	$ 1.63	*$ 0.67*	*$ 1.20*	*$ 1.29*	*$ 1.34*
Cash distributions paid per Stapled Unit	*$ 1.08*	*$ 1.08*	*$ 1.08*	*$ 1.08*	*$ 1.08*
Basic weighted average number of Stapled Units outstanding (000's)	*76,524*	*76,234*	*74,686*	*64,984*	*66,590*
Diluted weighted average number of Stapled Units outstanding (000's)	*76,629*	*76,309*	*74,808*	*65,128*	*66,685*
Stapled Units outstanding at the end of the period (000's)	*76,907*	*76,246*	*76,193*	*64,691*	*64,825*

[1] Earnings available for distribution, distributable cash and basic and diluted earnings available for distribution and distributable cash per weighted average Stapled Unit are measures that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. Management believes that presentation of these measures will enhance an investor's understanding of the Company's operating performance.

Distributable Cash (continued)
Distributable cash includes consolidated earnings before income taxes less cash income taxes, plus depreciation, depletion and amortization, plus proceeds from the sale of property, plant and equipment net of their gain (loss) on sale, less additions to property, plant and equipment and, from time to time, adjustments for other items deemed appropriate by the Board of Directors.

Distributable cash and earnings available for distribution are measures that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. Management believes that the presentation of these measures will enhance an investor's understanding of the Company's operating performance. A reconciliation of net earnings as determined in accordance with GAAP and both earnings available for distribution and distributable cash is provided in the preceding table.

TimberWest generated distributable cash of $125.2 million, or basic distributable cash of $1.64 per weighted average Stapled Unit and diluted distributable cash of $1.63 per weighted average Stapled Unit for the year ended December 31, 2004. This compares to distributable cash of $51.4 million, or basic and diluted distributable cash of $0.67 per weighted average Stapled Unit for the year ended December 31, 2003. Earnings available for distribution, before a net future income tax recovery of $7.4 million, were $98.8 million or $1.29 per basic and diluted weighted average Stapled Unit in fiscal 2004. This compares to earnings available for distribution, before provision for a future income tax provision of nil, of $42.2 million, or $0.55 per basic and diluted weighted average Stapled Unit in 2003. The current year increase in distributable cash and earnings available for distribution before provision for future income taxes of $73.8 million and $56.6 million, respectively, is primarily attributable to a $35.7 million or 61% increase in operating earnings for 2004 compared to 2003. This positive result reflects the combined effects of stronger log and lumber sales realizations during 2004 compared to 2003, and year-over-year improvements in both logging and manufacturing production costs. Earnings for 2003 were low due to over-supplied markets, severely dry summer conditions and a strike by the Industrial, Wood & Allied Workers of Canada (now United Steelworkers of America) late in the year. Distributable cash generated in 2004 was also positively affected by increased proceeds from the sale of other property, plant and equipment, including $16.7 million in cash proceeds from the sale of TFL 46, the receipt of $14.0 million as settlement for the 1995 expropriation of timber harvesting rights in the Walbran Valley and capital expenditures that were $9.5 million lower relative to 2003.

TimberWest distributed $82.3 million or $1.08 per Stapled Unit to unitholders in 2004, consistent with distributions made by the Company in 2003. Since TimberWest's inception in July 1997 to the end of 2004, the Company has generated distributable cash of $596.8 million while paying out $546.1 million to unitholders to the end of the calendar year. The Company also paid its January 15, 2005, distribution to unitholders of $20.7 million.

Earnings

The following table presents the results of TimberWest's operations for the year ended December 31, 2004, in comparison to the results for the years ended December 31, 2003, through December 31, 2000. Certain of the prior years' figures have been reclassified to conform to the current year's presentation.

(in millions of dollars except per common share amounts)	2004	2003	2002	2001	2000
Consolidated Statements of Earnings					
Sales	$ 477.0	$ 445.4	$ 481.1	$ 477.8	$ 508.7
Operating costs and expenses:					
Cost of sales	358.0	363.4	366.1	362.2	384.8
Selling, administrative and other	14.5	13.5	14.0	15.0	14.1
Depreciation, depletion and amortization	10.1	9.8	11.5	13.4	13.6
	382.6	386.7	391.6	390.6	412.5
Operating earnings	94.4	58.7	89.5	87.2	96.2
Interest expense	16.2	16.0	15.3	23.4	24.5
Amortization of debt issue costs	1.1	1.4	3.7	3.6	3.5
Other income	(8.2)	(1.8)	(0.9)	–	(0.6)
Loss on bond lock transaction	–	–	5.0	–	–
Write-down of property, plant and equipment and related costs	–	–	–	–	1.3
Earnings before income taxes and extraordinary item	85.3	43.1	66.4	60.2	67.5
Income tax expense (recovery)	17.4	18.3	27.1	15.6	(137.4)
Earnings before extraordinary item	67.9	24.8	39.3	44.6	204.9
Extraordinary item — expropriation settlement proceeds, net of applicable income taxes	9.0	–	–	–	–
Net earnings	$ 76.9	$ 24.8	$ 39.3	$ 44.6	$ 204.9
Basic earnings (loss) before extraordinary item per common share	*$ 0.19*	*$ (0.52)*	*$ (0.21)*	*$ 0.06*	*$ 2.49*
Extraordinary item, net of applicable income taxes	*0.12*	–	–	–	–
Basic net earnings (loss) per common share	*$ 0.31*	*$ (0.52)*	*$ (0.21)*	*$ 0.06*	*$ 2.49*
Diluted earnings (loss) before extraordinary item per common share	*$ 0.19*	*$ (0.52)*	*$ (0.21)*	*$ 0.06*	*$ 2.48*
Extraordinary item, net of applicable income taxes	*0.12*	–	–	–	–
Diluted net earnings (loss) per common share	*$ 0.31*	*$ (0.52)*	*$ (0.21)*	*$ 0.06*	*$ 2.48*

Sales

Sales for the year ended December 31, 2004, were $477.0 million, up 7% from $445.4 million in sales reported for the year ended December 31, 2003.

Log sales for the year ended December 31, 2004, were $337.6 million, or 71% of total sales, compared to $340.1 million or 76% of total sales for 2003. Log sales were down 1% overall, reflecting the net effect of a 4% decrease in the volume of logs sold and a 4% increase in average log sales realizations relative to 2003. Total log sales volumes for 2004 were 3.3 million m^3, comparable to 3.4 million m^3 in 2003. Domestic log sales volumes of 2.1 million m^3 in 2004 were equivalent to volumes in 2003, while 2004 export sales volumes were down 12% compared to 2003, to 1.2 million m^3. Volumes sold to Asian markets of 0.7 million m^3 were comparable to those for 2003, while volumes sold to US markets in 2004 were 0.5 million m^3, down 25% compared to 2003. Asian and US markets accounted for 60% and 40% of 2004 export volumes, respectively, compared to 53% and 47% in 2003. Log sales realizations for 2004 averaged $104 per m^3 compared to $100 per m^3 for 2003, with realizations on domestic sales increasing 1% from the prior year to $86 per m^3 and realizations on export sales increasing 9% from the prior year to $135 per m^3. Stronger log sales realizations in 2004 were primarily the result of strengthening of end markets during the year and the production of a stronger end-use sort mix in 2004 relative to the prior year. Currency remained a factor for export sales in 2004, with the Canadian dollar strengthening approximately 8% against its US counterpart relative to fiscal 2003. During the last half of the year very little of the exchange rate effect was passed on to export markets in the form of higher US dollar prices. The 2004 sales mix by species was comprised of 59% fir, 22% hemlock and 10% cedar, compared to 53% fir, 29% hemlock and 10% cedar for 2003.

Lumber sales for the year ended December 31, 2004, were $106.2 million, or 22% of total sales. This compares to lumber sales of $73.6 million representing 17% of total sales for fiscal 2003. The 44% increase in lumber sales reflects a 29% increase in the volume of lumber sold, rising to 171.7 million board feet for 2004 from 133.3 million board feet for 2003, as well as

a 12% increase in average lumber sales realizations, rising to \$619 per mfbm from \$552 per mfbm for 2003. The increase in the volume of lumber sold can be attributed to increased production at the lumbermill, reflecting the current-year benefits realized from capital improvements undertaken in 2003, the full-year effect of the third shift added to the mill in 2003 and the diversification of the product mix with the addition of new higher-value products. Improved realizations in the current year reflect stronger global markets for lumber products in 2004, whereas adverse market and economic conditions prevailed throughout 2003 and unfavourably affected operating results for that year.

Wood chip sales for 2004 of \$12.5 million were 45% greater than wood chip sales of \$8.6 million in 2003, reflecting a 44% increase in wood chip volumes sold compared to 2003 and a 3% increase in average wood chip sales realizations. Wood chips are a by-product of the lumber manufacturing process and, as anticipated, the 2004 increase in wood chip sales mirrors the 2004 increase in lumber sales.

Real estate activities generated revenues of \$10.8 million for the year ended December 31, 2004, compared to revenues of \$8.9 million for 2003. Real estate sales reported for both 2004 and 2003 are considered to be typical, with the variance in annual results reflecting the variable nature and timing of real estate sales activity.

Operating Earnings

Operating earnings for the year ended December 31, 2004, were \$94.4 million, or 20% of sales, compared to \$58.7 million or 13% of sales for 2003. The 61% year-over-year increase in operating earnings is primarily attributable to improvements in production costs achieved during 2004 relative to 2003, as well as the 7% increase in overall sales discussed previously.

On the Company's timberland operations, the operating margin for 2004 was 32%, up 9% from 23% of log sales for 2003, reflecting the effects of the 4% increase in log sales realizations described previously, as well as production cost reductions achieved during the current year. The Company continued to make progress in achieving permanent cost reductions and increased productivity on its timberland operations through strategic initiatives, delivering overall cost savings of \$6.80 per m^3 in 2004 against the Company's target of \$6.45 m^3. Overall, logging production costs for 2004 were \$66 per m^3, down 9% from the prior year. Specific cost reduction initiatives undertaken in 2004 delivered cost savings of \$10.3 million and included increased harvest mechanization and system changes, hauling cost reductions, improved scaling and sorting costs, increased equipment usage and alternate shifting. Logging production volumes for 2004 were up 9% over 2003, to 3.4 million m^3. The year 2004 was considered a strong year, with favourable weather and market conditions allowing private timberland operations to harvest their long-run sustainable yield on a timely basis. As a result, all private land operations were fully curtailed by early December 2004. Conditions were less favourable for timberland operations in 2003 due to market, weather and labour-related curtailments during that year.

During 2004, the Company began realizing the benefits of the capital improvement projects undertaken at the Elk Falls Lumbermill in 2003, including installation of three new lumber drying kilns and the replacement of the trimmer optimizer. With a third shift operating throughout 2004 and no unscheduled curtailments, the mill's production for 2004 was up 45% over 2003, to 180.7 million board feet. Process improvements and increased production enabled the lumbermill to reduce per unit conversion costs by 11%, contributing to a 4% decrease in per unit cost of sales from 2003. The combination of cost reductions and stronger lumber markets resulted in the lumbermill reporting a positive cash and earnings contribution to the Company's operating results for 2004, even after being assessed international prices for the logs consumed. This compares favourably to 2003, when the lumbermill reported an operating loss due to adverse market and economic conditions that resulted in several market-related shutdowns during the year.

Operating earnings were also positively affected by real estate activity for the year ended December 31, 2004, contributing \$4.2 million on real estate revenues of \$10.8 million, compared to a \$1.6 million contribution on real estate revenues of \$8.9 million in 2003.

Earnings Before Interest, Taxes, Depreciation & Amortization

Earnings before interest, taxes, depreciation and amortization (EBITDA) for the year ended December 31, 2004, increased $42.4 million to $112.7 million, compared to $70.3 million for 2003. On a per weighted average Stapled Unit basis, EBITDA increased to $1.47 for 2004, up from $0.92 in the prior year. For the year ended December 31, 2004, EBITDA as a percentage of sales increased to 24%, up from 16% for the year ended December 31, 2003. These results were due to factors described previously.

The following table details the calculation of TimberWest's EBITDA for both fiscal 2004 and 2003.

(in millions of dollars)	2004	2003
Net earnings	$ 76.9	$ 24.8
Add:		
Interest expense	16.2	16.0
Income taxes	17.4	18.3
Depreciation, depletion and amortization	10.1	9.8
Amortization of debt issue costs	1.1	1.4
Extraordinary item, net of applicable income taxes	(9.0)	–
EBITDA[1]	$ 112.7	$ 70.3

[1] EBITDA does not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. Management believes that presentation of this measure will enhance an investor's understanding of the Company's operating performance.

Finance Charges

Interest expense for the year ended December 31, 2004, was $16.2 million, comparable to the $16.0 million reported for the year ended December 31, 2003. The slight increase from the prior year reflects the added interest cost of $65.0 million aggregate principal amount of 7% unsecured senior debentures outstanding for all of 2004 compared to only three months in 2003. This increase has been offset in part by lower effective interest rates on the Company's short-term credit facilities during 2004 compared to 2003.

The provision for amortization of debt issue costs of $1.1 million for the year ended December 31, 2004, was down from $1.4 million in 2003, primarily due to a higher provision in 2003 to record the amortization of original fees associated with the $125.0 million unsecured revolving facility. The current provision primarily reflects the deferral and amortization of fees associated with the debenture public offerings completed in 2002 and 2003, and of fees associated with the two-year extension of the $125.0 million facility arranged in 2003.

Other Income

Other income for the year ended December 31, 2004, was $8.2 million, compared to $1.8 million for 2003. Other income is comprised of miscellaneous amounts, including gains on the sale of property, plant and equipment other than higher-use properties and interest income. The increase in other income in 2004 over the prior year reflects a $4.3 million gain on the sale of TFL 46 in 2004, as well as gains on the sale of logging equipment disposed of during the year.

Income Taxes

Income tax expense for the year ended December 31, 2004, was $17.4 million, compared to an expense of $18.3 million for the year ended December 31, 2003. The $17.4 million expense in 2004 includes current taxes of $0.5 million relating to large corporation tax, an income tax benefit of $29.3 million on interest on Series A Subordinate Notes held by unitholders, which has been offset by a credit directly to distributions, and a net future income tax recovery of $12.4 million. The $18.3 million expense in 2003 includes current taxes of $0.9 million relating to large corporation tax and an income tax benefit of $17.4 million on interest on Series A Subordinate Notes held by unitholders, which has been offset by a credit directly to distributions.

Extraordinary Item

The $14.0 million proceeds from the Province of British Columbia as settlement for the 1995 expropriation of timber harvesting rights in the Walbran Valley and Hitchie Creek areas have been accounted for as an extraordinary item in the consolidated statements of earnings, net of $5.0 million in income taxes effected at statutory tax rates. As the Company has non-capital losses carried forward from previous taxation years, no cash income taxes will be payable on the proceeds from this settlement. The future income tax recovery before the extraordinary item for the year ended December 31, 2004, has been increased by $5.0 million to recognize the benefit of the losses utilized and fully offsets the tax expense charged to the extraordinary item.

Net Earnings

Net earnings for the year ended December 31, 2004, were $76.9 million, up from $24.8 million for the year ended December 31, 2003. The increase in the current year is due to factors described previously, most notably increased sales realizations on products sold, the benefits of production cost reductions, the receipt of $14.0 million in expropriation settlement proceeds and the gain recorded on the sale of TFL 46.

For the year ended December 31, 2004, TimberWest has reported basic and diluted earnings before extraordinary item per common share of $0.19, compared to a loss per common share of $0.52 in 2003. The expropriation settlement proceeds of $14.0 million received in 2004, net of applicable income taxes, contributed $0.12 per common share, resulting in basic and diluted net earnings per common share of $0.31 for the year ended December 31, 2004, compared to a basic and diluted net loss per common share of $0.52 for the year ended December 31, 2003. This year-over-year improvement reflects the overall increase in net earnings from that reported in the prior year.

With TimberWest's Stapled Unit equity instrument, net earnings are first attributed to distributions on Series A Subordinate Notes. Earnings attributable to common shares are net earnings less net distributions on Series A Subordinate Notes held by unitholders (distributions announced during the year, net of the tax benefit thereon — see note 8 of the annual consolidated financial statements). For the current year, $23.7 million in net earnings is attributable to the common share component of the Company's Stapled Units, representing net earnings of $76.9 million less distributions announced during the year on Series A Subordinate Notes held by unitholders of $82.5 million, net of the $29.3 million tax benefit thereon. Of the $23.7 million in net earnings attributable to common shares, $14.7 million represents earnings before the expropriation settlement proceeds and $9.0 million represents earnings from this extraordinary item, net of applicable income taxes. In 2003, a net loss of $39.9 million was attributable to the common share component of the Company's Stapled Units, representing net earnings of $24.8 million less distributions announced on Series A Subordinate Notes held by unitholders of $82.1 million, net of the $17.4 million tax benefit thereon.

Sensitivities

Markets for TimberWest's products are cyclical and affected by such factors as economic growth, interest rates, foreign exchange rates, construction activity and log and chip trading activities. The majority of the timber harvested from the Company's private timberland is sold at prices set by the Vancouver log market. Pricing in this market is affected by the prices of forest products that are produced from BC coastal logs. TimberWest's earnings are subject to variation in log prices and therefore are subject to variations in forest product prices.

In addition, TimberWest sells a substantial volume of product outside of Canada (53% of sales in 2004), mostly in US dollars. As such, the relative strength of the Canadian dollar versus its US counterpart has an effect on sales and earnings. However, a historical review of the Company's operating margin and the Canada/US exchange rate shows no direct relationship between the two variables. In the short term, results can be adversely affected by a strengthening Canadian dollar, however, in the mid to long term, costs tend to be market driven and it has been the Company's experience that supply-and-demand dynamics result in margins returning to traditional levels.

The following table illustrates the sensitivity of TimberWest's operating earnings to changes in the average Canadian dollar selling price for its major products and in the value of the Canadian dollar relative to the US dollar.

(in millions of dollars)	Effect on operating earnings
Logs — $5 change per m^3	$ 16.3
Lumber — $10 change per mfbm	$ 1.7
Wood chips — $5 change per m^3	$ 1.7
Canadian dollar — $0.01 US change per Canadian dollar[1]	$ 3.1

[1] Estimate is based on US-dollar denominated sales for the year ending December 31, 2004, assuming all other variables remain constant.

Summary of Financial Position

The following table presents summary information on TimberWest's financial position as at December 31, 2004, in comparison to balances as at December 31, 2003, through December 31, 2000. Certain of the prior years' figures have been reclassified to conform to the current year's presentation.

(in millions of dollars)	2004	2003	2002	2001	2000
Current assets	$ 88.0	$ 70.0	$ 102.3	$ 91.6	$ 86.0
Property, plant and equipment	1,334.3	1,356.5	1,355.6	1,369.1	1,384.3
Other assets	12.2	14.4	20.4	26.5	35.0
Total assets	$ 1,434.5	$ 1,440.9	$ 1,478.3	$ 1,487.2	$ 1,505.3
Current liabilities	$ 78.2	$ 110.0	$ 173.0	$ 262.2	$ 316.5
Long-term financial liabilities	195.0	195.0	130.0	175.0	125.0
Other long-term liabilities	254.2	260.4	260.5	261.5	276.1
Total liabilities	527.4	565.4	563.5	698.7	717.6
Unitholders' equity	907.1	875.5	914.8	788.5	787.7
Total liabilities and unitholders' equity	$ 1,434.5	$ 1,440.9	$ 1,478.3	$ 1,487.2	$ 1,505.3

Current Assets

Current assets experienced a year-over-year increase of $18.0 million to $88.0 million at December 31, 2004, up 26% from $70.0 million as at December 31, 2003. This increase can be primarily attributed to a $16.5 million increase in inventory value to $62.2 million at December 31, 2004, compared to $45.7 million at December 31, 2003.

Log inventory value of $54.1 million at the end of 2004 was $13.0 million or 32% higher than log inventory of $41.1 million at the end of 2003, reflecting a 31% increase in log volumes in inventory at the end of 2004 compared to 2003. Log inventory levels were unseasonably low at the end of 2003 due to lost production in November and December of that year resulting from labour-related work stoppages during that period. The Company's private land logging operations harvested their long-run sustainable yield on a timely basis in 2004. As a result, although all private land operations were fully curtailed by early December 2004, year-end inventory levels for the current year were not adversely affected. Lumber inventory value of $6.8 million at the end of 2004 was $3.7 million or 119% higher than lumber inventory of $3.1 million at December 31, 2003. This increase reflects a 138% increase in lumber volumes in inventory at year-end and is indicative of low inventory levels at the end of 2003 due to a three-week market-related curtailment in production at the mill in December 2003.

Balances for cash, accounts receivable, prepaid expenses and other current assets and future income taxes as at December 31, 2004, were not significantly different from those at the end of 2003.

Property, Plant & Equipment

Property, plant and equipment of $1,334.3 million as at December 31, 2004, were $22.2 million less than at December 31, 2003, primarily reflecting the sale of TFL 46 for a sale price of $17.9 million and the sale of higher-use properties for proceeds of $10.4 million during 2004. Other factors contributing to the decrease from the prior year include the current year provision for depreciation, depletion and amortization of $10.1 million and the sale of other logging equipment during 2004 for proceeds of $4.8 million. These items were partially offset by $8.5 million in additions to property, plant and equipment during 2004.

Other Assets

Other assets of $12.2 million as at December 31, 2004, were down $2.2 million from $14.4 million at the end of the prior year. Other assets are comprised primarily of prepaid pension benefits and deferred debt issue costs. Factors contributing to the net decrease in this balance from the prior year include a $1.0 million decrease in deferred debt issue costs and a $0.7 million decrease in receivables on the sale of other surplus assets.

Current Liabilities

Current liabilities at the end of 2004 were $78.2 million, down $31.8 million from $110.0 million as at December 31, 2003. This decrease can be attributed to a decrease in borrowings on short-term credit facilities, offset in part by a slight increase in accounts payable and accrued liabilities compared to the prior year.

The Company completed and received renewals of short-term financings when predecessor facilities expired during the year. On March 2, 2004, the Company completed and received a renewal of short-term financing from a Canadian bank consisting of an unsecured demand bank guarantee facility in the amount of $16.0 million and an unsecured 364-day committed revolving facility in the amount of $40.0 million, both due on March 1, 2005. Under the 364-day facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate–based loans, Canadian dollar bankers' acceptances and letters of credit or guarantee. On May 26, 2004, the Company completed and received a renewal of short-term financing from a second Canadian bank. The renewed financing consists of an

unsecured 364-day committed revolving facility in the amount of $40.0 million that is due on May 25, 2005. Under this 364-day facility, funds are available to the Company by way of Canadian dollar prime rate–based loans, bankers' acceptances, letters of credit or guarantee and US dollar LIBOR.

Current liabilities as at December 31, 2004, included combined borrowings of $22.0 million on the two separate $40.0 million unsecured 364-day revolving credit facilities. At the end of 2003, the Company had combined borrowings of $60.0 million on predecessor 364-day revolving credit facilities.

Accounts payable and accrued liabilities increased $6.0 million to $35.5 million at December 31, 2004. This variance reflects a combination of factors, including lower trade payables at the end of 2003 due to logging and lumber production curtailments in December 2003, lower stumpage fee accruals due to reduced harvests on Crown tenures during the fourth quarter of 2003 and reduced compensation-related accruals at the end of 2003 under restructuring and incentive programs compared to balances as at December 31, 2004.

The distribution payable at December 31, 2004, of $20.7 million has increased slightly from the distribution payable of $20.5 million at December 31, 2003, reflecting a consistent per unit distribution and an increase in the number of Stapled Units outstanding at December 31, 2004, due to the exercise of options for 660,895 Stapled Units during 2004.

Long-term Financial Liabilities

Long-term financial liabilities as at December 31, 2004 and 2003, were $195.0 million, comprised of the Company's 7.0% unsecured senior debentures due October 1, 2007.

As at December 31, 2004, the Company had additional long-term financing available under an unsecured revolving credit facility for $125.0 million due on June 30, 2006. The Company had no borrowings on this facility as at December 31, 2004, and December 31, 2003.

Other Long-term Liabilities

Other long-term liabilities as at December 31, 2004, included a silviculture liability of $2.8 million, a $27.1 million liability relating to non-pension post-retirement benefits and a future income tax liability of $224.3 million.

The long-term silviculture liability has decreased $1.8 million during 2004 from $4.6 million at the end of 2003, due in part to the transfer of the silviculture liability associated with TFL 46 to the purchaser of this tenure and to the revaluation of the remaining silviculture liability at its fair value in compliance with a new accounting standard implemented during the year.

The liability for non-pension post-retirement benefits increased $1.8 million during the year from $25.3 million at December 31, 2003, and reflects actuarially updated estimated liabilities as at December 31, 2004.

The future income tax liability decreased $6.2 million during 2004 from $230.5 million at the end of 2003, reflecting a reduction in temporary differences between the net book and tax values of property, plant and equipment.

Unitholders' Equity

As at December 31, 2004, unitholders' equity was $907.1 million, $31.6 million greater than as at December 31, 2003. This increase is primarily due to a $23.7 million increase in retained earnings during the year, which can be attributed to 2004 net earnings of $76.9 million exceeding distributions on Series A Subordinate Notes held by unitholders of $82.5 million (net of the $29.3 million tax benefit thereon — see note 8 of the annual consolidated financial statements). The stated value of Stapled Units increased by $7.7 million during 2004 to $878.3 million as a result of the issuance of 660,895 Stapled Units on the exercise of Stapled Unit options during the year. As at February 8, 2005, the Company had 76,909,417 issued and outstanding Stapled Units and 1,155,178 granted and outstanding Stapled Unit option awards.

Liquidity & Capital Resources

Operating

In 2004, operating activities provided TimberWest with $75.6 million, compared to $64.5 million provided by operating activities in 2003. Cash flows from operations, before changes in non-cash working capital, were $85.8 million in 2004, up from $51.3 million in 2003. This increase from 2003 was partially offset by the effect of changes in non-cash working capital items. The $10.2 million increase in non-cash working capital during 2004 was due to the net effect of factors discussed previously under "Summary of Financial Position," including an increase in inventory and an increase in accounts payable and accrued liabilities to levels more typical of the fiscal year-end than existed at the end of 2003.

Financing

Cash used in financing activities was $112.6 million for the year ended December 31, 2004, compared to $63.7 million for the year ended December 31, 2003.

Financing activities in 2004 included $82.3 million in cash distributions paid to unitholders compared to $82.1 million in 2003. The per unit distribution paid per Stapled Unit in 2004 remained unchanged at $1.08, however, an increase in the number of Stapled Units outstanding as a result of the exercise of Stapled Unit options during the year resulted in a slight increase in total distributions paid in 2004.

During 2004, the Company issued 660,895 Stapled Units on the exercise of Stapled Unit options for net proceeds of

$7.7 million, compared to the issuance of 53,334 Stapled Units for net proceeds of $0.5 million on the exercise of options during the prior year.

During 2004, the Company applied $38.0 million to reduce amounts borrowed on its two $40.0 million 364-day revolving credit facilities. The Company originally completed and received two financings in fiscal 2003, and at December 31, 2003, had borrowings of $60.0 million on these combined facilities. In 2004, the Company completed one-year extensions to both of the original $40.0 million 364-day revolving credit facilities.

Other notable financing transactions in 2003 included the Company's adding to an existing debenture issue by completing a public offering of $65.0 million aggregate principal amount of 7.0% unsecured senior debentures due October 1, 2007, the retirement of $106.5 million aggregate principal amount of 6.5% debentures when they matured in March 2003, and the completion of a two-year extension to its $125.0 million unsecured revolving facility. The Company did not borrow on its $125.0 million facility during 2004 or 2003.

Investing

Cash provided by investing activities was $38.6 million for the year ended December 31, 2004, compared to cash used in investing activities of $1.8 million for the year ended December 31, 2003.

Proceeds from the sale of property, plant and equipment during fiscal 2004 were $33.3 million, compared to $11.4 million for the prior year. Proceeds in 2004 were generated primarily from the sale of TFL 46, representing $16.2 million cash proceeds. The sale of real estate properties represents $10.4 million of the 2004 proceeds, compared to $8.6 million of proceeds in 2003, while the balance represents proceeds from the sale of logging equipment.

Additions to property, plant and equipment for the year ended December 31, 2004, were $8.5 million, compared to $18.0 million for 2003. Major additions made during 2004 included $3.5 million for road building activities for timberland operations, $2.0 million for capital improvements at the Elk Falls Lumbermill and $2.0 million for a new financial reporting system. Notable capital additions in 2003 included $9.5 million toward improvement projects at the Elk Falls Lumbermill and $3.3 million to complete the North Island log sort. For 2005, the Company has committed to approximately $8.0 million in capital expenditures, including $2.3 million for timberland operations road building activities, $4.0 million for planermill improvements at the Elk Falls Lumbermill and $1.7 million for information systems improvements.

Changes in other assets resulted in a net cash outflow of $0.2 million during 2004, compared to a net cash inflow of $4.8 million in 2003. Other assets include several balances, many of which are non-cash items, including prepaid pension benefits, deferred financing fees and deferred stock-based compensation, for which changes are not reflected in this line of the consolidated statements of cash flows.

Capital Resources

Excluding credit facilities and the distribution payable to unitholders, net operating working capital was $52.5 million as at December 31, 2004, compared to $40.5 million as at December 31, 2003. TimberWest believes that its operating working capital is adequate to meet its operating requirements.

Total debt as at December 31, 2004, was $217.0 million, compared to $255.0 million as at December 31, 2003.

Total credit facilities available to the Company as at December 31, 2004, were $416.0 million, comprised of $16.0 million available under the demand bank guarantee facility due March 1, 2005, $40.0 million available under the 364-day revolving facility due March 1, 2005, $40.0 million available under the 364-day revolving facility due May 25, 2005, $125.0 million available under the revolving credit facility maturing on June 30, 2006, and $195.0 million of 7.0% debentures maturing on October 1, 2007. The Company is currently reviewing its options for refinancing, renewing or extending its facilities that mature in 2005.

These sources of borrowing, coupled with cash from operations, are sufficient to support the Company's working capital requirements, finance capital expenditures and pay required distributions to unitholders.

Credit ratings for the Company have been established by Standard and Poor's at BB+ and by Dominion Bond Rating Service at BBB (high) as at December 31, 2004. These ratings did not change during 2004. The Company believes that the strength of its balance sheet and its cash flows from operations will be sufficient to maintain these credit ratings.

TimberWest's consolidated debt-to-total capitalization ratio as at December 31, 2004, was 19.3:80.7, slightly more favourable than 22.6:77.4 as at December 31, 2003.

In February 2004, the Company increased flexibility on all its bank credit facilities by obtaining an amendment to the Company's debt/EBITDA covenant. The amendment increased this test to 4.75:1 for the quarter ended March 31, 2004, from the previous level of 4.25:1. For purposes of this covenant, the Company's debt/EBITDA was 3.44:1 for the quarter ended March 31, 2004. The debt/EBITDA covenant reverted to 4.25:1 for reporting periods after March 31, 2004.

Operating working capital, total debt, debt-to-total capitalization ratio and debt/EBITDA are measures that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. Management believes that presentation of these measures will enhance an investor's understanding of the Company's financial resources and capital structure.

Off-Balance-Sheet Arrangements

TimberWest does not have derivative financial instruments and does not have any equity interests in unconsolidated entities or any other business arrangements related to the foregoing that would have a material effect on the assets and liabilities of the Company. The Company does not enter into off-balance-sheet arrangements with special purpose entities in the normal course of business. The only significant off-balance-sheet arrangements are commitments under operating lease agreements as discussed under "Future Financial Commitments" in this management's discussion and analysis.

Future Financial Commitments

As disclosed in note 16 of the annual consolidated financial statements, in accordance with GAAP, TimberWest has commitments that are not reflected in the consolidated balance sheets of the Company. These commitments include operating leases for equipment and office premises and letters of credit that are routinely issued on behalf of insurance companies and other third parties in connection with outstanding performance contracts. As at December 31, 2004, commitments not reflected in the Company's consolidated balance sheets amounted to $31.1 million.

The following table provides a summary of the Company's future financial commitments as at December 31, 2004. This table details payments due in each of the next five years and thereafter, including commitments reflected on the Company's consolidated balance sheets and those that have not been reflected on the Company's consolidated balance sheets.

(in millions of dollars)	2005	2006	2007	2008	2009	2010+	Total
Reflected on the consolidated balance sheets:							
Revolving credit facilities	$ 22.0	$ –	$ –	$ –	$ –	$ –	$ 22.0
Debentures	–	–	195.0	–	–	–	195.0
	22.0	–	195.0	–	–	–	217.0
Not reflected on the consolidated balance sheets:							
Obligations under operating leases	7.8	3.7	1.6	0.9	0.6	0.6	15.2
Outstanding letters of credit	9.4	6.5	–	–	–	–	15.9
	17.2	10.2	1.6	0.9	0.6	0.6	31.1
	$ 39.2	$ 10.2	$ 196.6	$ 0.9	$ 0.6	$ 0.6	$ 248.1

As part of the Company's business transformation initiative, the Company has undertaken to buy out the leases on all leased logging equipment in early 2005. This equipment will in turn be disposed of to logging contractors working for the Company. Obligations under lease commitments for this logging equipment included in the figures reported above are approximately $10.7 million. Excluding obligations for leased logging equipment scheduled for buyout, commitments under operating leases are approximately $4.5 million. Annual payments over the term of these commitments are approximately as follows: 2005 — $1.2 million; 2006 — $0.7 million; 2007 — $0.7 million; 2008 — $0.7 million; 2009 — $0.6 million; and 2010 and beyond — $0.6 million.

Related Party Transactions

TimberWest's consolidated financial statements include the accounts of TimberWest Forest Corp. and its subsidiaries. Intercompany transactions and balances between companies and divisions owned by the Company are eliminated upon consolidation. There are no other such transactions to report.

Analysis of 2004 Fourth Quarter Results

TimberWest generated distributable cash of $18.1 million or basic and diluted distributable cash of $0.24 per weighted average Stapled Unit for the quarter ended December 31, 2004, compared to distributable cash of $9.0 million or basic and diluted distributable cash of $0.12 per weighted average Stapled Unit for the same period in 2003. The increase in distributable cash from the prior year can be attributed to higher operating earnings in the fourth quarter of 2004, reflecting higher sales due to higher average realizations on log sales and an increase in real estate sales compared to the same period in the prior year. Earnings available for distribution for the fourth quarter of 2004, before provision for future income taxes, were $13.2 million or $0.17 per basic and diluted weighted average Stapled Unit, compared to $1.3 million or $0.02 per basic and diluted weighted average Stapled Unit for the same quarter in 2003.

Sales for the fourth quarter of 2004 were $114.9 million, compared to sales of $96.3 million reported for the fourth quarter of 2003. Log sales for the three months ended December 31, 2004, were $73.8 million, up from log sales of $69.8 million for the quarter ended December 31, 2003. This increase reflects the net effect of a 14% increase in overall log sales realizations, averaging $104 per m^3 for the fourth quarter of 2004, and a 9% decrease in the volume of logs sold, to 0.7 million m^3 for the fourth quarter of 2004. The increase in average log sales realizations can be attributed to the net effect of an increase in the volume of logs sold into higher-margin export markets offset by a decrease in the volume of lower-margin domestic log sales, as well as a stronger sales mix in the current year period. The sales mix included a greater proportion of higher-value fir in the fourth quarter of 2004 compared to the same period in 2003. Lumber sales for the quarter ended December 31, 2004, of $28.5 million were 51% greater than sales of $18.9 million for the quarter ended December 31, 2003. This increase resulted from a 67% increase in the volume of lumber sold, rising to 54.0 million board feet, up from 32.3 million board feet for the fourth quarter of 2003. The increase in volume was offset in part by a softening in lumber pricing, resulting in a 10% decrease in average sales realizations over the comparative period in 2003.

Wood chip sales for the three-month period ended December 31, 2004, of $3.1 million were ahead of sales for the comparative period in 2003 primarily due to increased chip volumes available for sale in the current year as a result of the increased production at the Company's lumbermill facility.

Real estate activity for the fourth quarter of 2004 generated revenues of $7.4 million, compared to revenues of $2.2 million for the fourth quarter of 2003. The year-over-year change reflects the variable nature and timing of real estate sales activity.

Operating earnings were $15.0 million for the fourth quarter of 2004, compared to $5.8 million for the same period in 2003, representing a 116% improvement in the overall operating margin year over year, primarily reflecting higher real estate sales in the quarter and the higher margins realized on these transactions.

The operating margin from timberland operations for the fourth quarter of 2004 averaged 24% of log sales, compared to 13% of log sales for the fourth quarter of 2003. The improved results for 2004 primarily reflect the improved realizations discussed previously, as production costs for the fourth quarter of 2004 increased slightly, to $72 per m^3 from $71 per m^3 for the comparative period in 2003, primarily due to higher stumpage, road building, towing and sorting costs in the current year.

The Elk Falls Lumbermill made a positive contribution in the fourth quarter, comparable to that of the prior year period, as a result of increased sales stemming from a 48% increase in production over the comparative quarter in 2003. These results reflect the benefits realized from recent capital improvements and the preventative maintenance program in place at the lumbermill.

EBITDA for the quarter ended December 31, 2004, was $20.1 million or $0.26 per basic and diluted weighted average Stapled Unit, compared to $8.7 million or $0.11 per basic and diluted weighted average Stapled Unit for the same period in 2003.

Net earnings for the quarter ended December 31, 2004, were $12.2 million, equating to a basic and diluted net loss of $0.02 per weighted average common share, compared to a net loss of $0.7 million or a basic and diluted net loss of $0.26 per weighted average common share for the same period in 2003.

Quarterly Financial Highlights

The following table presents selected unaudited quarterly financial information for each of the Company's last eight quarters. This data has been derived from unaudited interim consolidated financial statements that have been prepared on the same basis as the annual audited consolidated financial statements and, in the Company's opinion, include all normal recurring adjustments necessary for the fair presentation of such information. These unaudited quarterly highlights should be read in conjunction with the Company's audited annual consolidated financial statements. Certain of the prior year's figures have been reclassified to conform to the current year's presentation.

Unaudited (in millions of dollars except per common share and per Stapled Unit amounts)	2004					2003				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Sales	$ 105.4	$ 136.8	$ 119.9	$ 114.9	$ 477.0	$ 130.8	$ 113.3	$ 105.0	$ 96.3	$ 445.4
Operating earnings	$ 28.0	$ 28.4	$ 23.0	$ 15.0	$ 94.4	$ 30.5	$ 10.4	$ 12.0	$ 5.8	$ 58.7
Earnings (loss) before extraordinary item	$ 17.1	$ 21.7	$ 16.9	$ 12.2	$ 67.9	$ 17.7	$ 1.5	$ 6.3	$ (0.7)	$ 24.8
Extraordinary item, net of applicable income taxes	–	–	9.0	–	9.0	–	–	–	–	–
Net earnings (loss)	$ 17.1	$ 21.7	$ 25.9	$ 12.2	$ 76.9	$ 17.7	$ 1.5	$ 6.3	$ (0.7)	$ 24.8
Earnings available for distribution[1]	$ 24.4	$ 29.1	$ 33.2	$ 19.5	$ 106.2	$ 25.4	$ 6.4	$ 9.6	$ 0.8	$ 42.2
Earnings available for distribution before provision for future income taxes	$ 23.6	$ 29.0	$ 33.0	$ 13.2	$ 98.8	$ 26.3	$ 6.4	$ 8.2	$ 1.3	$ 42.2
Distributable cash[1] before extraordinary item	$ 27.7	$ 43.5	$ 21.9	$ 18.1	$ 111.2	$ 25.7	$ 4.7	$ 12.0	$ 9.0	$ 51.4
Distributable cash from extraordinary item	–	–	14.0	–	14.0	–	–	–	–	–
Distributable cash	$ 27.7	$ 43.5	$ 35.9	$ 18.1	$ 125.2	$ 25.7	$ 4.7	$ 12.0	$ 9.0	$ 51.4
Distributions paid	$ 20.5	$ 20.6	$ 20.6	$ 20.6	$ 82.3	$ 20.5	$ 20.5	$ 20.6	$ 20.5	$ 82.1
$ per common share[2]										
Basic and diluted earnings (loss) before extraordinary item	$ 0.05	$ 0.11	$ 0.05	$ (0.02)	$ 0.19	$ 0.06	$ (0.19)	$ (0.14)	$ (0.26)	$ (0.52)
Extraordinary item, net of applicable income taxes	–	–	0.11	–	0.12	–	–	–	–	–
Basic and diluted net earnings (loss)	$ 0.05	$ 0.11	$ 0.16	$ (0.02)	$ 0.31	$ 0.06	$ (0.19)	$ (0.14)	$ (0.26)	$ (0.52)
$ per Stapled Unit[2]										
Earnings available for distribution[1]										
— basic	$ 0.32	$ 0.38	$ 0.43	$ 0.25	$ 1.39	$ 0.33	$ 0.08	$ 0.13	$ 0.01	$ 0.55
— diluted	$ 0.32	$ 0.38	$ 0.43	$ 0.25	$ 1.39	$ 0.33	$ 0.08	$ 0.13	$ 0.01	$ 0.55
Earnings available for distribution before provision for future income taxes										
— basic	$ 0.31	$ 0.38	$ 0.43	$ 0.17	$ 1.29	$ 0.35	$ 0.08	$ 0.11	$ 0.02	$ 0.55
— diluted	$ 0.31	$ 0.38	$ 0.43	$ 0.17	$ 1.29	$ 0.34	$ 0.08	$ 0.11	$ 0.02	$ 0.55
Distributable cash[1] before extraordinary item										
— basic	$ 0.36	$ 0.57	$ 0.29	$ 0.24	$ 1.46	$ 0.34	$ 0.06	$ 0.15	$ 0.12	$ 0.67
— diluted	$ 0.36	$ 0.57	$ 0.29	$ 0.24	$ 1.45	$ 0.34	$ 0.06	$ 0.15	$ 0.12	$ 0.67
Distributable cash from extraordinary item										
— basic	–	–	$ 0.18	–	$ 0.18	–	–	–	–	–
— diluted	–	–	$ 0.18	–	$ 0.18	–	–	–	–	–
Distributable cash										
— basic	$ 0.36	$ 0.57	$ 0.47	$ 0.24	$ 1.64	$ 0.34	$ 0.06	$ 0.15	$ 0.12	$ 0.67
— diluted	$ 0.36	$ 0.57	$ 0.47	$ 0.24	$ 1.63	$ 0.34	$ 0.06	$ 0.15	$ 0.12	$ 0.67
Distributions paid	$ 0.27	$ 0.27	$ 0.27	$ 0.27	$ 1.08	$ 0.27	$ 0.27	$ 0.27	$ 0.27	$ 1.08

[1] Earnings available for distribution, distributable cash and basic and diluted earnings available for distribution and distributable cash per weighted average Stapled Unit are measures that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. Management believes that presentation of these measures will enhance an investor's understanding of the Company's operating performance.

[2] Per common share and per Stapled Unit amounts for the year may not equal the sum of the quarters.

Unaudited	2004					2003				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Sales by product *(in millions of dollars)*										
Logs	$ 79.3	$ 103.2	$ 81.3	$ 73.8	$ 337.6	$ 103.8	$ 90.3	$ 76.2	$ 69.8	$ 340.1
Lumber	20.0	27.3	30.4	28.5	106.2	19.1	17.3	18.3	18.9	73.6
Wood chips and other	5.1	6.1	6.0	5.2	22.4	5.3	5.1	7.0	5.4	22.8
Real estate	1.0	0.2	2.2	7.4	10.8	2.6	0.6	3.5	2.2	8.9
	$ 105.4	$ 136.8	$ 119.9	$ 114.9	$ 477.0	$ 130.8	$ 113.3	$ 105.0	$ 96.3	$ 445.4
Sales volume										
Logs *(million m³)*										
Domestic	0.5	0.7	0.5	0.4	2.1	0.6	0.5	0.5	0.5	2.1
Japan and other Asian markets	0.2	0.2	0.1	0.2	0.7	0.2	0.2	0.1	0.2	0.7
United States	0.1	0.1	0.2	0.1	0.5	0.1	0.2	0.2	0.1	0.6
	0.8	1.0	0.8	0.7	3.3	0.9	0.9	0.8	0.8	3.4
Lumber *(mmfbm)*	32.0	39.1	46.6	54.0	171.7	31.1	33.5	36.5	32.2	133.3
Production volume										
Logs *(million m³)*	0.9	1.0	0.8	0.7	3.4	0.9	0.8	0.7	0.7	3.1
Lumber *(mmfbm)*	40.2	43.0	48.4	49.1	180.7	35.5	39.5	16.5	33.2	124.7

The Company generally experiences some seasonal fluctuation in quarterly results due to weather-related factors having an effect on harvesting operations. Earnings in the second half of the year generally trend lower as the result of fire season shutdowns and increased costs of harvesting at higher elevations late in the year due to difficult terrain.

Unit Transactions & Trading Information

The following table sets forth quarterly closing prices and trading volumes of TimberWest's Stapled Unit and equivalent as traded on the Toronto Stock Exchange.

Trading of Stapled Units & equivalent		Closing high	Closing low	Close	Volume
Trust Units/Stapled Units[1]:					
1997:	Third Quarter[2]	$ 16.00	$ 11.40	$ 15.00	8,046,941
	Fourth Quarter	$ 15.50	$ 9.90	$ 10.35	2,893,451
1998:	First Quarter	$ 11.60	$ 9.55	$ 10.50	9,786,692
	Second Quarter	$ 10.65	$ 8.20	$ 8.70	9,790,361
	Third Quarter[1]	$ 9.00	$ 7.60	$ 7.85	4,271,934
	Fourth Quarter	$ 10.00	$ 7.30	$ 8.95	8,486,269
1999:	First Quarter	$ 9.45	$ 8.50	$ 9.30	6,915,090
	Second Quarter	$ 11.75	$ 9.15	$ 11.50	5,498,035
	Third Quarter	$ 12.00	$ 10.55	$ 10.65	5,139,614
	Fourth Quarter	$ 10.85	$ 9.25	$ 9.50	8,047,352
2000:	First Quarter	$ 10.35	$ 8.80	$ 9.25	5,567,211
	Second Quarter	$ 11.30	$ 9.10	$ 10.40	4,094,791
	Third Quarter	$ 11.15	$ 9.85	$ 10.80	4,191,406
	Fourth Quarter	$ 11.00	$ 10.00	$ 10.85	2,231,067
2001:	First Quarter	$ 11.15	$ 10.60	$ 10.90	3,909,883
	Second Quarter	$ 12.50	$ 10.80	$ 12.20	2,430,870
	Third Quarter	$ 12.54	$ 11.65	$ 11.65	3,167,729
	Fourth Quarter	$ 13.25	$ 11.50	$ 13.00	4,834,500
2002:	First Quarter	$ 13.71	$ 12.75	$ 13.33	8,450,000
	Second Quarter	$ 14.00	$ 12.65	$ 13.96	5,766,665
	Third Quarter	$ 13.95	$ 12.50	$ 12.50	8,044,773
	Fourth Quarter	$ 12.81	$ 11.20	$ 12.00	5,614,688
2003:	First Quarter	$ 12.75	$ 11.75	$ 12.34	4,920,579
	Second Quarter	$ 12.90	$ 11.11	$ 11.30	13,497,139
	Third Quarter	$ 12.20	$ 11.09	$ 11.60	12,532,446
	Fourth Quarter	$ 12.79	$ 11.18	$ 12.70	10,859,497
2004:	First Quarter	$ 13.00	$ 12.05	$ 12.85	18,155,492
	Second Quarter	$ 13.84	$ 12.50	$ 13.42	7,531,430
	Third Quarter	$ 14.46	$ 12.85	$ 14.00	6,941,136
	Fourth Quarter	$ 15.19	$ 13.40	$ 15.08	8,726,965

[1] Trust Units of TimberWest Timber Trust ceased to be listed on the Toronto Stock Exchange (TSX) on October 9, 1998. Stapled Units of TimberWest Forest Corp. were listed on the TSX on October 6, 1998. Between October 2, 1998, and July 14, 1999, the Trust Units of the Trust were redeemable for Stapled Units of TimberWest on a one-for-one basis. On July 14, 1999, all remaining Trust Units except for 100 units held by TimberWest Forest Corp. were redeemed for Stapled Units.

[2] Trust Units were listed on the TSX on June 23, 1997.

Cash Distributions

TimberWest's policy is to make quarterly distributions to its unitholders in the form of interest on the Series A Subordinate Note component of the Company's Stapled Units held by unitholders. Quarterly distributions will be payable to the holders of Stapled Units of record on January 1, April 1, July 1 and October 1 in each year (Record Date) and are expected to be paid on the 15th day of the month of each Record Date. The Company may also make distributions as a return of capital upon the redemption of the preferred shares, or as dividends on the common shares or preferred shares. The amounts of such distributions are subject to TimberWest's overall financial condition.

Due to the nature of TimberWest's business, quarterly cash flows will fluctuate during the year for seasonal reasons. Cash flows will also fluctuate from year to year due to the cyclical nature of the business. One of the objectives of TimberWest's cash distribution policy is to make even distributions to unitholders. This means that cash distributions may vary from the actual cash generated during certain periods. Any difference will be added to or subtracted from either cash reserves or available credit facilities.

Total distributions paid to unitholders for the year ended December 31, 2004, were $82.3 million or $1.08 per Stapled Unit outstanding at each Record Date and were comprised entirely of interest earned on Series A Subordinate Notes. Since the Company's inception in July 1997 to the end of 2004, the Company has generated distributable cash of $596.8 million and, including the January 15, 2005 distribution of $20.7 million, the Company has distributed $566.8 million to unitholders.

The following table details the composition of distributions paid to date on a per unit and equivalent basis.

Record date	Payment date	Interest income	Taxable dividends	Non-taxable[1]	Total distribution[2]
Trust Units:					
Sept. 30, 1997	Oct. 15, 1997	$ 0.259000	$ 0.066000	$ –	$ 0.325000
Dec. 31, 1997	Jan. 15, 1998	0.161000	–	0.089000	0.250000
		$ 0.420000	$ 0.066000	$ 0.089000	$ 0.575000
Mar. 31, 1998	Apr. 15, 1998	$ 0.266000	$ –	$ –	$ 0.266000
June 30, 1998	July 15, 1998	0.270000	–	–	0.270000
Sept. 30, 1998	Oct. 15, 1998	0.272000	–	–	0.272000
Dec. 31, 1998	Jan. 15, 1999	0.269457	–	–	0.269457
		$ 1.077457	$ –	$ –	$ 1.077457
Mar. 31, 1999	Apr. 15, 1999	$ 0.269364	$ –	$ –	$ 0.269364
June 30, 1999	July 15, 1999	0.269364	–	–	0.269364
		$ 0.538728	$ –	$ –	$ 0.538728
Stapled Units:					
Jan. 1, 1999	Jan. 15, 1999	$ 0.269457	$ –	$ –	$ 0.269457
Apr. 1, 1999	Apr. 15, 1999	0.269364	–	–	0.269364
July 1, 1999	July 15, 1999	0.269364	–	–	0.269364
Oct. 1, 1999	Oct. 15, 1999	0.269364	–	–	0.269364
		$ 1.077549	$ –	$ –	$ 1.077549
Jan. 1, 2000	Jan. 15, 2000	$ 0.269364	$ –	$ –	$ 0.269364
Apr. 1, 2000	Apr. 15, 2000	0.269364	–	–	0.269364
July 1, 2000	July 15, 2000	0.269364	–	–	0.269364
Oct. 1, 2000	Oct. 15, 2000	0.269364	–	–	0.269364
		$ 1.077456	$ –	$ –	$ 1.077456
Jan. 1, 2001	Jan. 15, 2001	$ 0.269364	$ –	$ –	$ 0.269364
Apr. 1, 2001	Apr. 15, 2001	0.269364	–	–	0.269364
July 1, 2001	July 15, 2001	0.269364	–	–	0.269364
Oct. 1, 2001	Oct. 15, 2001	0.269364	–	–	0.269364
		$ 1.077456	$ –	$ –	$ 1.077456
Jan. 1, 2002	Jan. 15, 2002	$ 0.269364	$ –	$ –	$ 0.269364
Apr. 1, 2002	Apr. 15, 2002	0.269364	–	–	0.269364
July 1, 2002	July 15, 2002	0.269364	–	–	0.269364
Oct. 1, 2002	Oct. 15, 2002	0.269364	–	–	0.269364
		$ 1.077456	$ –	$ –	$ 1.077456
Jan. 1, 2003	Jan. 15, 2003	$ 0.269364	$ –	$ –	$ 0.269364
Apr. 1, 2003	Apr. 15, 2003	0.269364	–	–	0.269364
July 1, 2003	July 15, 2003	0.269364	–	–	0.269364
Oct. 1, 2003	Oct. 15, 2003	0.269364	–	–	0.269364
		$ 1.077456	$ –	$ –	$ 1.077456
Jan. 1, 2004	Jan. 15, 2004	$ 0.269364	$ –	$ –	$ 0.269364
Apr. 1, 2004	Apr. 15, 2004	0.269364	–	–	0.269364
July 1, 2004	July 15, 2004	0.269364	–	–	0.269364
Oct. 1, 2004	Oct. 15, 2004	0.269364	–	–	0.269364
		$ 1.077456	$ –	$ –	$ 1.077456
Jan. 1, 2005	Jan. 15, 2005	$ 0.269364	$ –	$ –	$ 0.269364

1 Non-taxable represents a return of capital to unitholders, which reduces the cost base of the units.

2 Excludes a distribution of $0.2 million made to holders of special deposit warrants on March 21, 1997.

Critical Accounting Policies & Estimates

TimberWest's accounting policies are described in note 2 of the annual consolidated financial statements. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

TimberWest considers the following policies to be most critical in understanding the judgments that are involved in preparing the Company's consolidated financial statements and the uncertainties that could affect the Company's results of operations, financial condition and cash flows.

Accounting for Private Timberlands

TimberWest accounts for its private timberland assets using the sustained yield method. Under the sustained yield method, depletion is taken on the capital cost of private timberlands if harvest levels exceed growth on a sustained basis. Yield analyses are conducted at least every five years on all private timberlands to determine if a depletion charge is required.

The most recent yield analysis was completed by the Company in late 2004 and established the projected long-run sustainable yield, or net biological growth rate, of the Company's private timberlands to be 2.5 million m^3 per year. This forms the basis for the Company's harvest plans. The calculation of long-run sustainable yield implicitly assumes that the entire inventory on the Company's land base will be economic to harvest at some time, now or in the future. At any given point in time there may be inventory that is uneconomic to harvest but, due to changes in costs, technology and/or markets, over time this may change. This has proven to be the case historically.

Based on the Company's recent determination, no depletion charge is required for fiscal 2004. The computation of the Company's recently revised long-run sustainable yield will be validated by the Company's external SFI® auditor, KPMG Performance Registrar Inc., in the first half of 2005.

The process of estimating sustained yield is complex, requiring significant decisions in the evaluation of timber stand volumes based on the development of yield curves derived from data on timber species, timber stand age and growing site indexes gathered from a physical sampling of the timberland resource base. Although every reasonable effort is made to ensure that the sustained yield determination represents the most accurate assessment possible, subjective decisions and variances in sampling data from the actual timberland resource base make this determination generally less precise than other estimates used in the preparation of the consolidated financial statements. Changes in the determination of sustained yield may result in corresponding changes in the provision for depletion of the private timberland asset in periods subsequent to periodic yield analyses, and could result in impairment of the carrying value of capital assets.

Accounting for Series A Subordinate Notes

As TimberWest may elect to pay interest on the Series A Subordinate Notes held by unitholders in common or preferred shares of the Company, and may elect to pay the principal amount of the Series A Subordinate Notes held by unitholders in common shares of the Company, the $690.5 million principal amount of the Series A Subordinate Notes held by unitholders at December 31, 2004, has been classified as equity for accounting purposes, and interest thereon, on an after-tax basis, is charged directly to retained earnings as a distribution. The aggregate annual amount of interest payable on Series A Subordinate Notes held by unitholders at December 31, 2004, is $82.9 million.

Effective January 1, 2005, the Company will adopt amendments to CICA Handbook Section 3860 – *Financial Instruments: Disclosure and Presentation* requiring obligations that may be settled at the issuer's option by a variable number of the issuer's own equity instruments to be presented as liabilities. TimberWest's Series A Subordinate Notes meet the criteria specified, and effective the 2005 fiscal year they must be reclassified to liabilities on the Company's consolidated balance sheets. Further, this revision will require that distributions on Stapled Units, currently charged directly to retained earnings, be reported, on a pre-tax basis, as an interest expense on the consolidated statements of operations, and that the tax benefit provided by the distributions be reported as a component of the income tax provision on the consolidated statements of operations. A detailed discussion of this issue is provided under "Highlights & Significant Transactions — Future Accounting Standard Change" in this management's discussion and analysis.

Accounting for Employee Future Benefits

TimberWest's pension and post-retirement benefit costs are developed from actuarial valuations. Inherent in these valuations are key assumptions, including the discount rate and expected long-term rate of return on pension plan assets. Material changes in TimberWest's pension and post-retirement benefit costs may occur in the future due to a change in these assumptions, a change in the number of plan participants or a change in the level of benefits provided. A description of the Company's employee benefit plans, a summary of the assumptions used in the calculation of these assets, liabilities and expenses, and the sensitivity of key assumptions are presented in note 14 of the annual consolidated financial statements.

Accounting for Future Income Taxes

Future income tax assets and liabilities are comprised of temporary differences between the carrying amount and tax basis of assets and liabilities, as well as tax losses carried forward. The timing of the reversal of the temporary differences is estimated, and the tax rate substantively enacted for the period of reversal is applied to the temporary difference. The carrying amounts of assets and liabilities are based upon the amounts recorded in the financial statements and are therefore subject to accounting estimates that are inherent in those balances. The tax basis of assets and liabilities as well as tax losses carried forward are based upon the applicable income tax legislation, regulations and interpretations, all of which in turn are subject to interpretation. The timing of the reversal of the temporary differences is estimated based upon assumptions of expectations of future results of operations.

Assumptions underlying the composition of future income tax assets and future income tax liabilities include expectations about future results of operations and the timing of reversal of deductible temporary differences and taxable temporary differences. These assumptions also affect classification between future income tax assets and future income tax liabilities. The composition of future income tax assets and future income tax liabilities is reasonably likely to change from period to period because of the significance of these uncertainties.

If the future were to differ from management's best estimate of future results of operations and the timing of reversal of deductible temporary differences and taxable temporary differences, the Company could experience material future income tax adjustments. Additional details are provided in note 6 of the annual consolidated financial statements.

Risk Management

TimberWest manages principal risks of its business through established systems and procedures in two main areas: business operations, including both forest resources and facilities, and currency. The Company's principal risks can also be viewed in terms of controllable risks and non-controllable risks. Controllable risks relate primarily to the resources and assets of TimberWest and compliance with regulatory and ethical standards. Non-controllable risks result primarily from variations in product prices due to changes in market conditions, fluctuations in foreign currency exchange rates and legislative, regulatory, harvesting fee and trade policy changes made by the government of British Columbia.

Business Operations Risk

Revenues, net income and cash flow from TimberWest's operations are dependent on the Company's continued ability to harvest timber at adequate levels. The Company's ability to harvest timber from its timberlands in order to fund distributions to unitholders may be limited by weather conditions, timber growth cycles, market pricing, sustainable forestry standards and regulatory requirements. There can be no assurance that the Company will achieve harvest levels in the future necessary to maintain or increase revenues, net earnings and cash flows.

To minimize the potential for adverse effects arising from these risk factors, TimberWest has systems and procedures in place to monitor the utilization of resources and the protection of assets. Control mechanisms report on the efficiency and use of forestry, conversion and monetary resources. TimberWest believes that procedures in place to track and monitor changes, along with adequate insurance coverage, protect the Company's assets from undue business operations risk.

Forest resource risk

TimberWest's private timberlands and Crown timber tenures are subject to the risks associated with standing forests. Forest fires, insect infestation and disease pose the primary risks. The Company has endeavoured to minimize these risks through prevention and early detection. Fire protection is provided through ground-based suppression crews and an aerial attack capability provided primarily by TimberWest's Martin Mars water bombers. Over the last several decades, losses on the Company's private timberlands and Crown timber tenures due to fire, insect infestation and disease have been negligible. As is typical in the forest products industry, the Company does not maintain insurance coverage with respect to damage to the standing timber in its private timberlands. The Company does, however, maintain insurance for loss of logs due to fire and other occurrences following harvesting.

End-market risk

The results of TimberWest's operations are, and will continue to be, affected by the cyclical nature of the forest products industry. Prices and demand for logs and manufactured wood products have been, and in the future can be expected to be, subject to cyclical fluctuations. The demand for logs and wood products is primarily affected by the level of new residential construction activity and, to a lesser extent, repair and remodelling activity and other industrial uses, which are subject to fluctuations due to changes in economic conditions, interest rates, population growth, weather conditions and other factors. Decreases in the level of residential construction activity generally reduce demand for logs and wood products, resulting in lower revenues, net earnings and cash flows.

The Company's business includes the sale of logs from its private timberlands for export, which is substantially dependent on market and economic conditions in Japan, other parts of Asia and the US West Coast regions. Log export revenues may be affected by, among other things, log supply in competing regions, fluctuations in exchange rates, the availability of substitute products, the level of housing starts, changes in building practices and the effect of existing federal legislation that constrains log exports from private timberlands only in British Columbia. Historically, export grade logs have been sold at a premium over the prices that would have been received if the logs had been sold in the domestic market. British Columbia provincial legislation constrains the export of logs originating from Crown timber tenures.

An ancillary part of the Company's business is the sale of pulp logs. Prices for these logs are dependent on supply/demand balances for pulp fibre on the BC coast, which are in turn affected by market and economic conditions.

Regulatory risk

Legislation in British Columbia enables the development of regulations and policies and empowers government agencies to maintain all aspects of sustainable forest management. The Forest Practices Code of British Columbia Act (Forest Practices Code), which was implemented on June 15, 1995, set comprehensive standards for forest practices on Crown timber tenures and private timberlands within TFLs, established planning procedures and introduced a range of activity-specific penalties for non-performance. In March 2003, the government of British Columbia introduced the Forestry Revitalization Plan, which provided for significant changes both to Crown forest policy, including the Forest Practices Code, and to the existing allocation of Crown timber tenures to licensees.

Since introducing its Forestry Revitalization Plan, the government has focused on initiatives to trim bureaucracy, provide increased operating flexibility and reduce costs incurred by Crown tenure holders, while preserving environmental values. The government has introduced changes to the Forest Practices Code, stumpage, cut control, appurtenancy and tenure transfers. In addition, the government has introduced the Forest and Range Practices Act — a results-based forest practices code. The Forest and Range Practices Act will over time replace the Forest Practices Code.

As part of the Forestry Revitalization Plan, the government also proclaimed legislation which authorized a reallocation of timber harvesting rights from Crown timber tenures. The Forestry Revitalization Act provided for the withdrawal of 201,000 m^3 from the Company's replaceable licences. Orders are now in place allocating 33,000 m^3 to the Company's TFL 47 and 168,000 m^3 to TFL 46, which was sold during 2004. The Company is awaiting orders on removing specific areas from TFL 47 sufficiently large enough to support the ordered reduction. The Forestry Revitalization Act also provides for a 20% reduction in the annual allowable cut for the Company's timber licences. While provisions for compensation have been made by the provincial government, the specifics will not be communicated until all areas have been identified. This reduction in provincial harvesting rights is not expected to have a material effect on TimberWest.

The Private Managed Forest Land Act came into effect on November 6, 2003, replacing the Forest Land Reserve Act and the Private Land Forest Practices Regulation that, since their introduction in April 2000, had regulated managed forest land. These regulations apply to lands within the forest land reserve, including TimberWest's private lands classified as Managed Forests, and effectively cover most of TimberWest's private lands. In addition to reforestation standards, these regulations set out protection standards for four key public environmental values: clean water; protection of fish habitat; soil conservation; and protection of critical wildlife habitat.

On July 22, 2004, the provincial government announced regulations made under the Private Managed Forest Land Act. These regulations define the government's role relative to Managed Forests, as well as the role and operation of the new Private Managed Forest Land Council. The council is an administrative model based on a public/private agency model that has multiple roles, including responsibility for forest practices regulations, administration of the Managed Forest land base, inquiry management, forest practices audits and reporting to government and landowners. These regulations were enacted August 3, 2004.

TimberWest focuses on providing its employees with the knowledge and skills they require in order to carry out their daily tasks in full compliance with the Forest Practices Code, the Forest and Range Practices Act, the Private Managed Forest Land Act and other applicable regulations. TimberWest's employees administer agreements with contractors to ensure that they have systems in place to protect the Company's lands and meet regulatory requirements, as well as any other specified commitment made by the Company.

TimberWest is subject to numerous and increasingly stringent environmental laws and regulations of general application relating to air emissions, effluent discharges, groundwater quality, plant and wildlife protection, employee health and safety, and waste management. Changes to these laws or regulations, or the implementation of new laws or regulations, could result in additional expenses, capital expenditures, and restrictions and delays in the Company's activities. In addition, if the Company fails to comply with applicable legislation and regulations, its operations could be interrupted and it could be subject to significant liabilities, including fines and other penalties, or be required to take remedial actions, any of which could entail significant expenditure.

TimberWest employs an environmental management system to ensure the Company's operations are in compliance with these regulations. On November 29, 1999, TimberWest was awarded the ISO 14001 registration on all of its operations, which indicates that TimberWest's operations have appropriate systems in place to provide compliance with applicable environmental laws. TimberWest has now been in good standing with this certification program for over five years. In December of 2000, TimberWest became the first Canadian company to achieve sustainable forest management certification for its forestry operations on private land under the American Forest & Paper Association's Sustainable Forestry Initiative (SFI®). The SFI® program is a rigorous system of environmental and conservation practices that includes requirements for wildlife protection, biodiversity conservation, harvesting practices and a wide range of other forest management goals. TimberWest has now been in good standing with this certification program for over four years.

Currency Risk

TimberWest sells a substantial volume of products outside of Canada (53% of gross sales in 2004), mostly in US dollars. As such, the relative strength of the Canadian dollar versus its US counterpart has an effect on the Company's sales and earnings. The sensitivity of TimberWest's operating results to fluctuations in the value of the Canadian dollar relative to the US dollar has been discussed previously under "Results of Operations — Sensitivities" in this management's discussion and analysis. As noted in this discussion, a historical review of the Company's operating margin and the Canada/US exchange rate shows no direct relationship between the two variables. In the short term, results can be adversely affected by a strengthening Canadian dollar, however, in the mid to long term, costs tend to be market driven and it has been the Company's experience that supply-and-demand dynamics result in margins returning to traditional levels.

Uncertainties

Business Transformation Initiative

A key component of TimberWest's business plan and Operations Excellence strategy is the pursuit of cost reduction initiatives. As noted previously, a key element implemented by the Company in 2004 was the transformation of its business model through a restructuring of the Company's log harvesting operations and a move to contract all log harvesting and road building activities. The Company's business plan assumes that this initiative will continue to generate cost savings for the Company on an ongoing basis. Over time, the financial success of this initiative will be affected by market forces.

Forest Resources

The mix of timber harvested by TimberWest changes each year. With continued harvesting, over time there is less higher-value, mature timber remaining in the forest inventory, offset by an increase in smaller diameter, mostly second-growth timber. While this shift in forest resource mix initially places downward pressure on average log sales realizations, timber harvesting costs also tend to decline over time as there is increased mechanization with second-growth harvesting. Historically, TimberWest has successfully offset the effects of a smaller diameter end-use sort mix with lower costs and market diversification. As well, as customers adapt to the changing mix coming out of the forest, demand has improved for the smaller diameter product and pricing has reflected this improved demand. The Company will continue to pursue ongoing productivity improvements and will continue to pursue the best value for its timber resources to offset the effects of a continually changing end-use sort mix.

Market Access

The export of private land logs out of BC is restricted by the federal government's surplus test, Notice 102. This test requires that private forest landowners offer their logs for sale first in BC at domestic prices, which are typically lower than export prices, and only if there is no buyer in BC can a private forest landowner then sell logs outside of the country. This restriction applies only to BC landowners. Private forest landowners in all other provinces, and in the US, are free to sell their logs to any customer they choose.

During 2004, TimberWest sold 1.2 million m^3 of logs into markets in Asia and the US West Coast at an average sales price premium of $33 per m^3 over domestic sales prices. The price premium earned by selling private land logs into the export market represents more than half the distributable cash generated by the Company's timberland operations. The ability to export private land logs has also played a key role in keeping employees working. Selling logs at higher international prices allows owners of private land to harvest stands that would otherwise be uneconomic.

Forcing private forest landowners to sell logs to domestic sawmills at prices lower than international prices transfers the value from the tree grower to the processors, impairs the value of private timberlands in coastal BC and reduces pricing of Crown logs sold on the coast of BC.

The Company has been hopeful that this matter will be resolved as part of an agreement between the US and Canada on the softwood lumber issue. However, a negotiated settlement does not appear likely in the near term. In 2001 TimberWest filed a statement of claim in the Federal Court of Canada challenging the validity of the private land log export restrictions that apply only to BC, seeking a declaration that the provisions are of no force and effect. The Company is continuing with its legal action and anticipates the issue will go to trial in the Federal Court in the last half of 2005.

Fibre Supply Agreements

TimberWest has entered into several fibre supply agreements with Norske Skog Canada Limited (NSCL) and a log supply agreement with Western Forest Products Limited (Western). These arrangements make sawlogs available to NSCL and Western and also provide NSCL with a supply of wood fibre. These are long-term contracts that specify the volumes to be supplied at prevailing domestic market prices. In addition, NSCL pays various fees to TimberWest for services provided under the NSCL agreements. The NSCL agreements are all indefinite agreements subject to termination by NSCL only, with 12 or 24 months' notice depending on the agreement. The Western agreement is also an indefinite agreement subject to termination by Western with 12 months' notice. Were any of these agreements to be terminated, depending on the market conditions at the time, there could be a positive or a negative impact on TimberWest's revenues, net earnings and cash flows.

Labour Relations

TimberWest employs a small unionized workforce on its timberland operations and contracts for the remainder of harvesting activities. TimberWest also employs a unionized workforce in its lumber manufacturing and shipping operations. Strikes or lockouts at the Company's, its contractors' or its customers' operations could restrict the Company's ability to carry on its business.

At December 31, 2004, the Company had four collective agreements in place that cover all of its unionized employees.

The United Steelworkers of America Collective Agreement

The United Steelworkers of America (USWA) is the certified bargaining agent for a small number of TimberWest's hourly employees involved primarily in engineering and forestry activities at the Company's timberland operations. The Industrial, Wood & Allied Workers of Canada (IWA Canada) was the

predecessor bargaining agent for these employees. Members of IWA Canada approved a merger with USWA effective September 2004.

In December 2003, the provincial government appointed Don Munroe as mediation-arbitration commissioner to examine the issues facing the coastal forest industry and issue a binding award for industry and IWA Canada (now USWA). In May 2004, Munroe released his award, which provided employees with wage increases, improved pension contributions, potential bonuses, increases to seniority retention and enhanced severance pay while, at the same time, providing some important modifications to work scheduling, reductions in travel time and the ability to transfer work to full-phase contractors. The current collective agreement with USWA reflects these conditions and has an effective date of June 15, 2003. This contract expires on June 14, 2007.

The Communications, Energy & Paperworkers Collective Agreement

The Communications, Energy & Paperworkers (CEP) is the certified bargaining agent for TimberWest's hourly employees at the Elk Falls Lumbermill. A collective agreement signed with the CEP in May 2001 specified annual salary increases of 2% for 2001 and 2002. For 2003, 2004 and 2005, salary increases are to be equal to the 2% annual general increase contained in the USWA Collective Agreement. This contract expires on May 1, 2006.

The International Longshore & Warehouse Union — Canada Collective Agreements

The International Longshore & Warehouse Union — Canada (ILWU Canada) is the certified bargaining agent for hourly employees at TimberWest's Stuart Channel Wharves operation. TimberWest is a member of the British Columbia Maritime Employers Association and the Waterfront Foreman Employers Association. Each of these associations negotiates a master agreement with ILWU Canada locals on behalf of industry members. These two collective agreements signed in January 2003 with ILWU Canada provide for average annual wage increases of 2.6% over the term of the agreements, which expire on March 31, 2007.

Aboriginal Land Claims

Canadian courts have recognized that aboriginal peoples may possess rights at law in respect of land used or occupied by their ancestors where treaties have not been concluded to deal with these rights. These rights may vary from limited rights of use for traditional purposes to a right of aboriginal title and will depend upon, among other things, the nature and extent of the prior aboriginal use and occupation. The courts have encouraged the Canadian federal and provincial governments and aboriginal peoples to resolve rights claims through the negotiation of treaties.

Aboriginal groups in British Columbia have claimed substantial portions of land in the province over which they claim aboriginal title or in which they have a traditional interest and for which they are seeking compensation from various levels of government. A process is now in place within British Columbia to deal with aboriginal land claims. These negotiations will be ongoing for a number of years, depending on the commitment of the parties involved and the precedents set by the outcomes of the first settlement agreements.

Canadian governments have a duty to consult with and possibly accommodate aboriginal groups where their rights may be affected.

The Company cannot predict whether aboriginal land claims or other rights in British Columbia will affect its existing Crown timber tenures, its private timberlands, its ability to harvest timber from these sources in the future or its ability to renew or secure other sources in the future.

Softwood Lumber Dispute

On May 22, 2002, the US Department of Commerce (DOC) imposed countervailing duties (CVD) of 18.8% against Canadian softwood lumber exports to the US. Also on May 22, 2002, the DOC imposed anti-dumping duties (ADD), which for TimberWest were set at 8.4%.

The effect of these US trade measures has affected the Company's domestic log customers and will continue to have an effect on softwood lumber producers in BC, including the Company's ability to export softwood lumber from the Elk Falls Lumbermill.

The Canadian federal and provincial governments have launched challenges of these tariffs under the North American Free Trade Agreement (NAFTA) and with the World Trade Organization (WTO).

The year 2004 was one of steady technical improvement for Canadian interests in the softwood lumber file. The NAFTA injury determination released in August 2004 found that the US International Trade Commission (ITC) had not made a convincing case that Canadian lumber exports are injuring the US industry. At the same time, the WTO found that the US methodology used to determine the existence of dumping margins was flawed. Shortly thereafter, the DOC announced that the CVD and ADD would be reduced more than 50%. Taken together, these results raised hopes that Canada might see a complete reversal and enjoy the return of escrowed duties.

The US industry was clearly set back by these decisions, but vowed to appeal any and all negative findings, and if these appeals were not successful, to re-start the process by filing yet another CVD petition. In October, the US filed a petition seeking to overturn the NAFTA panel's negative injury finding to a NAFTA "extraordinary challenge committee."

There were a number of decisions and actions that took place between November 2004 and the present. None resulted in any substantial changes in the current state of play.

It is important to note that there are already more than 20 important milestones for decisions or results scheduled during 2005 on the softwood lumber case. Most of these decisions are subject to continuing delays or appeals.

Because of the uncertainty, time and cost of this convoluted process, many industry and government officials on both sides of the border continue to believe that a negotiated settlement is the best way to implement a permanent solution to this long-standing dispute. An exploratory meeting between industry executives from both countries is tentatively scheduled for early 2005. The purpose is to discuss how and where negotiations would be conducted and to determine the level of interest in proceeding with talks. This development must be viewed as the start of a complicated process with significant political risks.

Lumber sales by TimberWest into the US were not significant during 2004. Approximately $1.7 million of combined CVD and ADD on softwood lumber shipments to the US have been reflected in the Company's financial results as an element of cost of sales for the year ended December 31, 2004. Since the softwood lumber dispute began in 2002, the Company has paid combined CVD and ADD of $2.3 million. Cash payments for both the CVD and ADD have been made at the assessed rates.

Legal Issues

Notice 102

TimberWest filed a statement of claim in the Federal Court of Canada July 31, 2001, calling on the federal government to repeal its discriminatory private land log export restriction that imposes, only in BC, a "surplus test" on private forest landowners (see further discussion of this issue under "Uncertainties — Market Access" in this management's discussion and analysis). The federal government filed a statement of defence in September 2001. The government also filed a motion to strike the statement of claim in October 2001. A Federal Court order dated June 12, 2002, supported TimberWest and the action is proceeding, with the first examination for discovery and associated undertakings completed. TimberWest is hoping that this issue will be resolved as part of the softwood lumber negotiations (see further discussion of this issue under "Uncertainties — Softwood Lumber Dispute" in this management's discussion and analysis). However, a negotiated settlement does not appear likely in the near term, and the Company anticipates the issue will go to trial in the Federal Court in the last half of 2005.

Pacific Forest Products Limited taxation matter

Pacific Forest Products Limited, a wholly owned subsidiary of the Company, filed an appeal to the Tax Court of Canada on February 14, 2001, for its 1994 to 1997 taxation years. The issues involve the undepreciated capital cost of certain Crown forest tenures acquired from Canadian Forest Products Ltd. (Avenor), as well as the disallowance of numerous expenses claimed by Pacific Forest Products Limited. Examinations for discovery of documents have been conducted with follow-up required, however, no trial date has been set.

The Company is subject to additional legal proceedings and claims that arise in the ordinary course of its business. Although there can be no assurance as to the disposition of these matters and the proceedings, it is the opinion of the Company's management, based upon the information available at this time, that the expected outcome of these matters, individually or in aggregate, will not have a material adverse effect on the results of operations and financial condition of the Company.

Outlook

Having had an outstanding year in 2004, TimberWest is approaching 2005 with more caution. Economic reports indicate GDP growth in the US will slow in 2005 and analysts are predicting housing starts will decline to 1.84 million from 1.94 million in 2004. While we do not see this happening in the very near term, we are anticipating that this will be the case for the last half of the year. As such, we expect the US log and lumber market to become oversupplied later in the year, depressing prices for our products in that market. While fir and hemlock remain strong in this market, we are starting the year off with weak cedar and alder prices as both of these species are in an oversupply situation in the US Pacific Northwest.

In terms of Japan, there are expectations of a long and sustained recovery fuelled by strong household balance sheets, excellent consumer confidence, accommodating monetary policy and rapid export growth. In spite of this, for 2005 housing starts are expected to remain flat, which means demand for log and lumber products is not expected to grow in this market this year. As we begin the year, demand and pricing for North American logs is stable in Japan. However, the Japanese lumber market is oversupplied, causing some weakness in pricing across most of our products destined for that market. We expect this oversupply situation to work its way out by mid-year, with pricing firming up in the last half of the year as a result.

The negative effects of these supply/demand issues could be exacerbated by the rapid appreciation we have seen in the Canadian dollar — with the dollar appreciating a further 10% in the last few months of 2004. While many economists think that this pace of appreciation is unsustainable in the medium term, in the short run it is reducing our competitiveness.

The Company is continuing with its business transformation program and has begun the year with all of its harvesting and road building activity completely contracted. This will result in lower costs and improved flexibility, both of which are expected to improve the competitiveness of the organization over time. We are pleased with the start-up of our new contractors considering the challenging weather conditions they faced in early January.

The BC government has not fully implemented its forest policy changes. While progress has been made and new investment is beginning to take place on the BC coast, the tenure take-backs and the greatly expanded BC Timber Sales program, which provides the foundation for a market-based stumpage system, have not been completed. These changes are key to unleashing competitive market forces on the coast and we encourage the government to keep moving toward completion of these initiatives. Further consolidation in the sawmilling sector is also expected on the BC coast.

For the first year since TimberWest's inception, Elk Falls has generated a strong return on capital, however, the mill has not consistently generated an adequate return and will be challenged in 2005.

We expect 2005 capital expenditure levels to be about the same as they were in 2004 and expect 2005 real estate sales will be somewhat lower.

In spite of some anticipated challenges in our markets we expect to meet distributable cash requirements for 2005.

The statements that are not historical facts contained in this report are forward-looking statements that involve risks and uncertainties. TimberWest's actual results could differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, general economic conditions, variations in TimberWest's product prices and changes in commodity prices generally, changes in market conditions, actions of competitors, interest rate and foreign currency fluctuations, regulatory, harvesting fee and trade policy changes and other actions by governmental authorities, the ability to implement business strategies and pursue business opportunities, labour relations, weather conditions, forest fires, insect infestation, disease and other natural phenomena and other risks and uncertainties described above.

Management's Responsibility

To the Unitholders of TimberWest Forest Corp.:

The accompanying consolidated financial statements of TimberWest Forest Corp. and all information in this annual report are the responsibility of management and have been reviewed and approved by the Company's Board of Directors. These consolidated financial statements and related notes have been prepared by management in conformity with accounting principles generally accepted in Canada and necessarily include amounts based on management's informed judgments and estimates. Financial information included elsewhere in this annual report is consistent with that contained in the consolidated financial statements.

To assist management in fulfilling its responsibilities, a system of internal accounting controls has been established to provide reasonable assurance that the consolidated financial statements are accurate and reliable and that assets are safeguarded. Management believes that this system of internal controls has operated effectively for the year ended December 31, 2004.

KPMG LLP, Chartered Accountants, appointed by the unitholders, have audited the consolidated financial statements and conducted a review of internal accounting policies and procedures to the extent required by generally accepted auditing standards in Canada and performed such tests as they deemed necessary to enable them to express an opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls, and is ultimately responsible for reviewing and approving the consolidated financial statements and the management's discussion and analysis. The Audit Committee is composed of four independent directors who are not employees of the Company. The Audit Committee meets regularly with management, KPMG LLP and the internal auditors to review their activities and to discuss internal controls, accounting, auditing and financial matters. The Audit Committee recommends the appointment of the external auditors. The Audit Committee also meets quarterly to review interim and annual consolidated financial statements and related materials and reports its findings to the Board of Directors for its consideration in approving the consolidated interim and annual financial statements for public dissemination.

Paul J. McElligott
President and
Chief Executive Officer

Beverlee F. Park
Vice-President, Finance, and
Chief Financial Officer

TimberWest Forest Corp.
Vancouver, Canada
January 21, 2005

Auditors' Report

To the Unitholders of TimberWest Forest Corp.:

We have audited the consolidated balance sheets of TimberWest Forest Corp. as at December 31, 2004 and 2003, and the consolidated statements of operations, cash flows and unitholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Vancouver, Canada
January 21, 2005

Consolidated Statements of Operations

(in millions of dollars, except per common share amounts)	2004	2003
Sales	$ 477.0	$ 445.4
Operating costs and expenses:		
Cost of sales	358.0	363.4
Selling, administrative and other	14.5	13.5
Depreciation, depletion and amortization	10.1	9.8
	382.6	386.7
Operating earnings	94.4	58.7
Interest expense	16.2	16.0
Amortization of deferred financing costs	1.1	1.4
Other income (note 5)	(8.2)	(1.8)
Earnings before income taxes and extraordinary item	85.3	43.1
Income tax expense (note 6)	17.4	18.3
Earnings before extraordinary item	67.9	24.8
Extraordinary item — expropriation settlement proceeds, net of applicable income taxes (note 7)	9.0	–
Net earnings	$ 76.9	$ 24.8
Basic and diluted earnings (loss) before extraordinary item per common share (note 8)	$ 0.19	$ (0.52)
Extraordinary item, net of applicable income taxes	0.12	–
Basic and diluted net earnings (loss) per common share (note 8)	$ 0.31	$ (0.52)

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

(in millions of dollars)	2004	2003
Assets		
Current assets:		
Cash	$ 1.6	$ –
Accounts receivable	14.7	14.4
Inventories (note 9)	62.2	45.7
Prepaid expenses and other current assets	5.7	7.3
Future income taxes (note 6)	3.8	2.6
	88.0	70.0
Property, plant and equipment, net (note 10)	1,334.3	1,356.5
Other assets (note 11)	12.2	14.4
	$ 1,434.5	$ 1,440.9
Liabilities and Unitholders' Equity		
Current liabilities:		
Credit facilities (note 12)	$ 22.0	$ 60.0
Accounts payable and accrued liabilities	35.5	29.5
Distribution payable	20.7	20.5
	78.2	110.0
Debentures (note 13)	195.0	195.0
Long-term silviculture liability	2.8	4.6
Non-pension post-retirement benefits (note 14)	27.1	25.3
Future income taxes (note 6)	224.3	230.5
	527.4	565.4
Unitholders' equity:		
Stapled Units, consisting of Series A Subordinate Notes, preferred shares and common shares (note 15(b))	878.3	870.6
Contributed surplus	0.4	0.2
Retained earnings	28.4	4.7
	907.1	875.5
	$ 1,434.5	$ 1,440.9

Commitments and contingencies (note 16)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Paul J. McElligott
Director

V. E. Daughney

V. Edward Daughney
Director

Consolidated Statements of Cash Flows

(in millions of dollars)	2004	2003
Cash provided by (used in):		
Operating activities:		
Earnings before income taxes and extraordinary item	$ 85.3	$ 43.1
Cash income taxes (note 6)	(0.5)	(0.9)
	84.8	42.2
Items not involving cash:		
Depreciation, depletion and amortization	11.2	11.2
Gain on sale of property, plant and equipment	(12.4)	(3.7)
Other non-cash items	2.2	1.6
	85.8	51.3
Changes in non-cash working capital:		
Accounts receivable	(0.3)	9.7
Inventories	(16.5)	21.6
Prepaid expenses and other current assets	0.4	(1.6)
Accounts payable and accrued liabilities	6.2	(16.5)
	75.6	64.5
Financing activities:		
Distributions paid to unitholders	(82.3)	(82.1)
Issuance of Stapled Units on exercise of options	7.7	0.5
Revolving credit facilities	(38.0)	60.0
Issuance of 7% debentures	–	65.8
Redemption of 6.5% debentures	–	(106.5)
Deferred debt issue costs	–	(1.4)
	(112.6)	(63.7)
Investing activities:		
Proceeds from sale of property, plant and equipment	33.3	11.4
Additions to property, plant and equipment	(8.5)	(18.0)
Other assets	(0.2)	4.8
Expropriation settlement proceeds — extraordinary item (note 7)	14.0	–
	38.6	(1.8)
Increase (decrease) in cash	1.6	(1.0)
Cash, beginning of year	–	1.0
Cash, end of year	$ 1.6	$ –
Supplementary information:		
Interest paid	$ 16.0	$ 18.0
Income taxes paid	$ 0.8	$ 0.9

See accompanying notes to consolidated financial statements.

Consolidated Statements of Unitholders' Equity

(in millions of dollars)	Stapled Units (note 15) Number	Stapled Units (note 15) Amount	Contributed surplus	Retained earnings	Total unitholders' equity
Balance, December 31, 2002	76,192,788	$ 870.1	$ 0.1	$ 44.6	$ 914.8
Year ended December 31, 2003:					
Issuance of Stapled Units on exercise of options	53,334	0.5	–	–	0.5
Stapled Unit option awards	–	–	0.1	–	0.1
Net earnings	–	–	–	24.8	24.8
Interest on Series A Subordinate Notes	–	–	–	(82.1)	(82.1)
Income tax benefit thereon (note 6)	–	–	–	17.4	17.4
Balance, December 31, 2003	76,246,122	870.6	0.2	4.7	875.5
Year ended December 31, 2004:					
Issuance of Stapled Units on exercise of options	660,895	7.7	–	–	7.7
Stapled Unit option awards	–	–	0.2	–	0.2
Net earnings	–	–	–	76.9	76.9
Interest on Series A Subordinate Notes	–	–	–	(82.5)	(82.5)
Income tax benefit thereon (note 6)	–	–	–	29.3	29.3
Balance, December 31, 2004	76,907,017	$ 878.3	$ 0.4	$ 28.4	$ 907.1

See accompanying notes to consolidated financial statements.

1. Primary business activity

TimberWest Forest Corp. is incorporated under the Company Act (British Columbia) and operates in the solid wood segment of the forest industry, primarily in the harvesting and sale of logs from the coastal region of British Columbia.

2. Significant accounting policies

The accompanying consolidated financial statements include the accounts of TimberWest Forest Corp. and its subsidiaries, have been prepared in accordance with generally accepted accounting principles in Canada (GAAP) and are expressed in Canadian dollars.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, management reviews its estimates, including those related to litigation, environmental liabilities, inventory valuations, rates for depreciation, depletion and amortization, silviculture liabilities, income tax assets and liabilities, stock-based compensation, and pension and post-retirement obligations based on currently available information. Actual results could differ from these estimates.

In these financial statements, the term "Company" is used to mean TimberWest Forest Corp. and, where the context of the narrative permits or requires, its subsidiaries.

(a) Basis of presentation:

These consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant intercompany transactions and balances have been eliminated.

(b) Revenue recognition:

The Company recognizes its revenues when the significant risks and rewards of ownership are transferred, which is generally at time of shipment, but taking into account the FOB point.

(c) Inventories:

Inventories other than supplies are recorded at the lower of average cost and net realizable value. Supplies are recorded at cost.

(d Property, plant and equipment:

Property, plant and equipment are capitalized at cost. Plant and equipment are depreciated on a straight-line basis at rates that reflect estimates of the economic lives of the assets based on the following annual rates of depreciation:

Assets	Rate
Buildings	2.5%–5%
Machinery and equipment	5%–25%
Other	3%–20%

Crown timber tenures are depleted in a systematic manner based on the utilization of the timber resources. Logging roads are amortized on a straight-line basis over 12 years, which approximates the utilization of the related timber resources.

Private timberlands are accounted for using the sustained yield method. Depletion will be taken on the capital cost of the private timberlands if harvest levels exceed growth on a sustained basis. Yield analyses are conducted at least every five years on all private timberlands to determine if a depletion charge is required.

Silviculture costs relating to the reforestation of private timberlands, including site preparation and planting, are expensed as incurred.

Property, plant and equipment are tested for impairment in value whenever events or changes in circumstances indicate their carrying amount may not be recoverable. An impairment loss is recognized if, at the date it is tested for impairment, the carrying amount of the property, plant and equipment exceeds the sum of the undiscounted cash flows expected to result from their use and/or eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the property, plant and equipment exceeds its fair value.

2. Significant accounting policies *(continued)*

(e) Silviculture costs:

British Columbia legislation requires the holders of Crown timber harvesting licences to assume the cost of reforestation on these licences. Accordingly, the Company estimates the cost of reforestation of these licence areas as the timber is harvested and determines the fair value of this liability with reference to the present value of estimated future cash flows. The fair value of this liability is subject to re-measurement at each reporting period. The portion of this liability representing expenditures projected to take place within the next year is classified as a current liability and the remainder is classified as a long-term liability.

(f) Deferred debt issue costs:

Debt issue costs related to credit facilities and debentures are deferred and amortized over the respective terms to maturity.

(g) Employee future benefits:

The Company has established employee benefit plans as described in note 14. The Company accrues its obligations under these plans and the related costs, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health-care costs. For the purpose of calculating the expected return of plan assets, those assets are valued at fair value. Past service costs from plan amendments are amortized over the average remaining life expectancy of inactive employees. For the Company's pension plans, the excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining life expectancy of inactive employees. For the Company's non-pension post-retirement plans, actuarial gains (losses) are amortized over the average remaining service period of active employees. Defined contribution plan accounting is applied to a multi-employer defined benefit plan.

(h) Income taxes:

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized.

(i) Series A Subordinate Notes:

As the Company may elect to pay interest on the Series A Subordinate Notes held by unitholders in common or preferred shares of the Company and may elect to pay the principal amount of the Series A Subordinate Notes held by unitholders in common shares of the Company, the $690.5 million (2003 — $684.6 million) principal amount of the Series A Subordinate Notes held by unitholders at December 31, 2004, has been classified as equity for accounting purposes, and interest thereon, on an after-tax basis, is charged directly to retained earnings as a distribution.

The aggregate annual amount of interest payable on Series A Subordinate Notes held by unitholders at December 31, 2004, is $82.9 million (2003 — $82.2 million).

2. Significant accounting policies *(continued)*

(j) Foreign currency transactions:

Monetary assets and liabilities denominated in foreign currencies are translated at the period-end exchange rates. Gains or losses on translation are reflected in net earnings for the period. Revenues and expense items denominated in foreign currencies are translated at rates of exchange prevailing during the period.

(k) Stock-based compensation plans:

The Company has established stock-based compensation plans for eligible directors, officers and employees as described in note 17. The Company's stock-based compensation plans are accounted for using the fair value–based method, and accordingly a compensation expense is recognized for awards made under these plans. The compensation expense is computed when Stapled Unit options are awarded to plan participants and when payments are made in connection with the Distribution Equivalent Plan and is deferred and amortized over the vesting period of the underlying options. Any consideration paid by plan participants on the exercise of Stapled Unit options is credited to unitholders' equity. A credit to contributed surplus is recorded for the fair value of Stapled Unit option awards granted and for forfeited distribution equivalent awards.

(l) Earnings per share:

Earnings per share amounts are determined using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for determining the dilutive effect of Stapled Unit options and other dilutive instruments, when applicable. Under this method, only "in the money" dilutive instruments are considered in the diluted calculations.

3. Change in accounting policies

Generally accepted accounting principles:

Effective January 1, 2004, the Canadian Institute of Chartered Accountants (CICA) introduced new recommendations under CICA Handbook Section 1100 — *Generally Accepted Accounting Principles*, which, among other things, provides guidance on alternative sources to consult when an issue is not specifically addressed by Canadian GAAP. Previously, the Company, along with others in the forest industry, presented lumber sales net of shipping, handling costs and countervailing and anti-dumping duties. In addition, the Company previously presented shipping and handling costs recovered from customers on log sales netted against cost of sales. As a result of applying these recommendations, shipping and handling costs recovered from customers are included in sales, while shipping and handling costs incurred are included in cost of sales. Further, countervailing and anti-dumping duties have also been reclassified to cost of sales in accordance with this new GAAP standard. The prior period has been reclassified for comparability. For information purposes, as a result of the reclassification of these amounts, sales and cost of sales reported for the year ended December 31, 2004, are $21.5 million higher (2003 — $16.9 million) than they would have been had this reclassification not been made. There is no impact on operating earnings, net earnings or cash flows as a result of this change.

Asset retirement obligations:

Effective January 1, 2004, the Company adopted the recommendations of CICA Handbook Section 3110 — *Asset Retirement Obligations*. Section 3110 establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. Under this new standard, asset retirement obligations must be recognized at their fair value in the period in which they are incurred if a reasonable estimate of the fair value can be made, with fair value of a liability determined with reference to the present value of estimated future cash flows. The amount of the liability is subject to re-measurement at each reporting period. This standard changed the Company's accounting for silviculture liabilities accrued for future reforestation costs. This change in accounting policy has been applied retroactively, however, there has been no material effect on the Company's consolidated financial statements.

The Company may have additional asset retirement obligations. The recommendations of this new standard have not been applied to assets with indeterminate useful lives as the associated asset retirement obligations are not reasonably estimable and therefore the fair value of the liabilities cannot be established.

3. Change in accounting policies *(continued)*

Employee future benefits:

During 2004, the Company adopted amendments to CICA Handbook Section 3461 — *Employee Future Benefits.* Section 3461 establishes standards for the recognition, measurement and disclosure of the cost of employee future benefits. In January 2004, the CICA amended Section 3461 to require additional disclosures about the assets, cash flows and net periodic benefit cost of pension and other post-retirement benefit plans. The new annual disclosures are effective for years ending on or after June 30, 2004, and new interim disclosures were effective for periods ending on or after that date. The additional disclosures required for the Company's pension and other post-retirement plans are presented in note 14.

Impairment of long-lived assets.

Effective January 1, 2004, the Company adopted the new recommendations of CICA Handbook Section 3063 — *Impairment of Long-lived Assets.* Section 3063 establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets by profit-oriented enterprises. The new recommendations require the Company to test long-lived assets for impairment in value whenever events or changes in circumstances indicate their carrying value may not be recoverable. An impairment loss is recognized if at the date it is tested for impairment, the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and/or eventual disposition. If an impairment loss exists, the loss is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value. Adoption of this standard resulted in no effect on the Company's consolidated financial statements.

4. Future accounting change

Liabilities and equity:

Effective January 1, 2005, the Company will adopt amendments to CICA Handbook Section 3860 — *Financial Instruments: Disclosure and Presentation.* Section 3860 establishes standards for the balance sheet presentation of financial instruments or their components as liabilities or equity. The revision to Section 3860 requires obligations that may be settled at the issuer's option by a variable number of the issuer's own equity instruments to be presented as liabilities. The revision is effective for all fiscal years beginning on or after November 1, 2004.

The revised standard will require the Company to reclassify the Series A Subordinate Note component of the Company's Stapled Units from equity to liabilities as the Series A Subordinate Notes may be settled by a variable number of the Company's common shares. Had this revision been implemented at December 31, 2004, $690.5 million (2003 — $684.6 million) in Series A Subordinate Notes currently included as a component of Stapled Units under unitholders' equity would have been presented as financial liabilities in the Company's consolidated balance sheets. Further, distributions on the Series A Subordinate Notes must also be reclassified from their current presentation as a charge directly to retained earnings, on an after-tax basis, in the consolidated statements of unitholders' equity to interest expense, on a pre-tax basis, in the consolidated statements of operations. Had this revision been implemented at December 31, 2004, a net charge to earnings of $53.2 million (2003 — $64.7 million) would have been required for the year then ended.

5. Sale of Tree Farm Licence 46

In the second quarter of 2004, the Company completed the sale of its southern Vancouver Island public land operations, referred to as Tree Farm Licence 46 (TFL 46). TFL 46 represented part of the Company's public land logging business, included timber rights to an annual allowable cut of approximately 500,000 m^3 on 76,574 hectares of Crown land and had been operated by TimberWest as part of its Honeymoon Bay operation on southwest Vancouver Island.

The sale price for these assets was $17.9 million. Under the terms of the sale, silviculture liabilities of $0.4 million were assumed by the purchaser and leased equipment with a value of $6.0 million was transferred to the purchaser, relieving the Company of commitments for future payments under operating leases in the amount of $2.6 million. The gain on the sale of these operations has been included in other income in the consolidated statements of operations.

In millions of dollars, except per common share and per Stapled Unit amounts

6. Income taxes

Income tax expense consists of:

	2004			2003		
	Statement of operations	Distributions	Total	Statement of operations	Distributions	Total
Current:						
Large corporation tax	$ 0.5	$ –	$ 0.5	$ 0.9	$ –	$ 0.9
Income tax benefit on interest on Series A Subordinate Notes charged directly to distributions	29.3	(29.3)	–	17.4	(17.4)	–
	29.8	(29.3)	0.5	18.3	(17.4)	0.9
Future:						
Future income tax recovery	(12.4)	–	(12.4)	–	–	–
Income tax expense (recovery)	$ 17.4	$ (29.3)	$ (11.9)	$ 18.3	$ (17.4)	$ 0.9

The provision for future income taxes for the year ended December 31, 2004, includes a $5.0 million recovery to recognize the benefit of losses utilized to offset the income tax expense that would otherwise be applicable to expropriation settlement proceeds of $14.0 million received during the year (see note 7).

The Company's effective income tax rate differs from the Canadian statutory income tax rate. The principal factors causing the difference are as follows:

	2004			2003		
	Statement of operations	Distributions	Total	Statement of operations	Distributions	Total
Earnings before income taxes	$ 85.3	$ –	$ 85.3	$ 43.1	$ –	$ 43.1
Interest on Series A Subordinate Notes	–	(82.3)	(82.3)	–	(82.1)	(82.1)
	$ 85.3	$ (82.3)	$ 3.0	$ 43.1	$ (82.1)	$ (39.0)
Income tax expense (benefit) at statutory rates (2004 — 35.6%; 2003 — 37.6%)	$ 30.4	$ (29.3)	$ 1.1	$ 16.2	$ (30.9)	$ (14.7)
Large corporation tax	0.5	–	0.5	0.9	–	0.9
Non-deductible expenses	0.1	–	0.1	1.2	–	1.2
Tax losses (utilized) not recognized	(10.2)	–	(10.2)	–	13.5	13.5
Permanent difference tax effected at capital gains rate	(2.7)	–	(2.7)	(0.4)	–	(0.4)
Change in prior year estimated tax values	0.3	–	0.3	0.1	–	0.1
Other	(1.0)	–	(1.0)	0.3	–	0.3
Income tax expense (recovery)	$ 17.4	$ (29.3)	$ (11.9)	$ 18.3	$ (17.4)	$ 0.9

In millions of dollars, except per common share and per Stapled Unit amounts

6. Income taxes *(continued)*

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2004 and 2003, are presented below:

		2004		2003
Net future tax assets:				
Current silviculture liability	$	0.6	$	0.7
Accruals for financial reporting purposes not deductible for tax purposes		3.2		1.9
Net future tax assets, current	$	3.8	$	2.6
Net future tax liabilities:				
Private timberlands	$	(220.2)	$	(221.5)
Other property, plant and equipment		(13.0)		(18.3)
Other assets		(1.7)		(1.3)
Non-pension post-retirement benefits		9.6		9.0
Long-term silviculture liability		1.0		1.6
Capital loss carryforwards		26.2		26.2
Non-capital loss carryforwards		39.1		49.3
Total gross future tax liabilities		(159.0)		(155.0)
Valuation allowance		(65.3)		(75.5)
Net future tax liabilities, non-current	$	(224.3)	$	(230.5)

7. Extraordinary item — expropriation settlement proceeds

In the third quarter of 2004 the Company received $14.0 million from the Province of British Columbia as settlement for the 1995 expropriation of timber harvesting rights in the Walbran Valley and Hitchie Creek areas for park creation purposes under the Park Amendment Act, 1995 (British Columbia). The $14.0 million proceeds from this settlement have been accounted for as an extraordinary item in the consolidated statements of earnings, net of $5.0 million in income taxes effected at statutory tax rates. As the Company has non-capital losses carried forward from previous taxation years, income taxes will not be paid on the proceeds from this settlement. The future income tax recovery before the extraordinary item for the year ended December 31, 2004, has increased by $5.0 million to recognize the benefit of the losses utilized and fully offsets the tax expense charged to the extraordinary item.

In millions of dollars, except per common share and per Stapled Unit amounts

8. Earnings (loss) per share

	2004	2003
Earnings before extraordinary item	$ 67.9	$ 24.8
Less:		
Distributions on Series A Subordinate Notes	(82.5)	(82.1)
Tax benefit thereon	29.3	17.4
	(53.2)	(64.7)
Earnings (loss) before extraordinary item attributable to common shares	14.7	(39.9)
Extraordinary item, net of income taxes (note 7)	9.0	–
Net earnings (loss) attributable to common shares	$ 23.7	$ (39.9)
Basic weighted average number of common shares	76,523,531	76,234,486
Incremental common shares from potential exercise of options	105,681	74,597
Diluted weighted average number of common shares	76,629,212	76,309,083
Basic and diluted earnings (loss) before extraordinary item per common share	$ 0.19	$ (0.52)
Extraordinary item, net of income taxes, per common share	0.12	–
Basic and diluted net earnings (loss) per common share	$ 0.31	$ (0.52)

The Company may elect to pay the interest on, and the principal amount of, Series A Subordinate Notes in common or preferred shares of the Company.

9. Inventories

	2004	2003
Logs	$ 54.1	$ 41.1
Lumber	6.8	3.1
Supplies	1.3	1.5
	$ 62.2	$ 45.7

In millions of dollars, except per common share and per Stapled Unit amounts

10. Property, plant and equipment

2004	Cost	Accumulated depreciation	Net book value
Logging buildings and equipment	$ 29.8	$ 17.4	$ 12.4
Lumbermill and other equipment and facilities	50.2	19.7	30.5
Land	35.6	–	35.6
	$ 115.6	$ 37.1	78.5
Timberlands (including $1,214.0 million of private timberlands) and logging roads (net of depletion and amortization)			1,255.8
			$ 1,334.3

2003	Cost	Accumulated depreciation	Net book value
Logging buildings and equipment	$ 28.8	$ 13.8	$ 15.0
Lumbermill and other equipment and facilities	45.5	16.2	29.3
Land	37.7	–	37.7
	$ 112.0	$ 30.0	82.0
Timberlands (including $1,218.4 million of private timberlands) and logging roads (net of depletion and amortization)			1,274.5
			$ 1,356.5

The $1,214.0 million (2003 — $1,218.4 million) carrying value for private timberlands includes a valuation increase adjustment of $389.8 million (2003 — $390.9 million) recorded in the year ended December 31, 2000, resulting from the adoption of Section 3465 — *Income Taxes* of the CICA Handbook, which was mandatory for fiscal years ending on or after January 1, 2000.

11. Other assets

	2004	2003
Prepaid pension benefits (note 14)	$ 7.4	$ 7.4
Deferred debt issue costs	1.7	2.7
Receivable on sale of property, plant and equipment	0.5	1.2
Other	2.6	3.1
	$ 12.2	$ 14.4

12. Credit facilities

During 2004, the Company completed and received a renewal of two short-term financings, one comprised of an unsecured demand bank guarantee facility in the amount of $16.0 million and an unsecured 364-day committed revolving facility in the amount of $40.0 million, and the second comprised of an unsecured 364-day committed revolving facility in the amount of $40.0 million.

As at December 31, 2004, the Company's credit facilities were comprised of:

(a) $40.0 million unsecured 364-day committed revolving facility:
The Company has an unsecured 364-day committed revolving facility of $40.0 million. Under this facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate–based loans, Canadian dollar bankers' acceptances and letters of credit or guarantee. This facility has been underwritten by a Canadian chartered bank and is due on March 1, 2005. As at December 31, 2004, the Company had borrowings of $11.0 million on this facility. The average effective interest rate on this facility for the period it was outstanding during 2004 was 3.55% (2003 — 4.39%).

(b) $40.0 million unsecured 364-day committed revolving facility:
The Company has a second unsecured 364-day committed revolving facility of $40.0 million. Under this facility, funds are available to the Company by way of Canadian dollar prime rate–based loans, bankers' acceptances, letters of credit or guarantee and US dollar LIBOR. This facility has been underwritten by a Canadian chartered bank and is due on May 25, 2005. As at December 31, 2004, the Company had borrowings of $11.0 million on this facility. The average effective interest rate on this facility for the period it was outstanding during 2004 was 3.71% (2003 — 4.15%).

(c) $125.0 million unsecured revolving facility:
The Company has an unsecured revolving facility of $125.0 million. Under this facility, funds are available to the Company in both Canadian and US dollars by way of adjusted prime rate–based loans, bankers' acceptances, US base rate–based loans, LIBOR loans and letters of credit or guarantee. This facility has been co-underwritten by two Canadian chartered banks and is due on June 30, 2006. As at December 31, 2004, the Company had no borrowings on this facility (2003 — nil). The average effective interest rate on this facility during 2004 was 4.05% (2003 — 4.87%).

(d) $16.0 million unsecured demand bank guarantee facility:
The Company has an unsecured 364-day demand bank guarantee facility of $16.0 million. This facility has been underwritten by a Canadian chartered bank and is due on March 1, 2005. As at December 31, 2004, the Company had issued letters of credit or guarantee in the amount of $15.9 million on this facility. The guarantee fee on this facility for the period it was outstanding during 2004 was 1.25%.

13. Debentures

The Company's $195.0 million aggregate principal amount of debentures bear interest at 7% per annum, mature on October 1, 2007, are unsecured and unsubordinated, and rank senior in priority to the Series A Subordinate Notes held by unitholders and equally with indebtedness of the Company under its credit facilities.

14. Employee benefits

The Company, through its subsidiaries, maintains pension plans that include defined benefit (DB Plans) and defined contribution (DC Plan) segments available to all salaried employees and to hourly employees not covered by union pension plans. Employees are no longer eligible to join the DB Plans. Most non-union active employees are currently participating in the DC Plan.

Unionized employees of the Company's subsidiaries are members of a multi-employer defined benefit pension plan providing both pension and other retirement benefits. The Company contributes a pre-set amount per hour worked by employees to this plan (aggregating $3.2 million during the year ended December 31, 2004 (2003 — $3.1 million)) and accounts for these payments as a defined contribution plan as the Company has no further obligations relating to the pension benefits of its unionized employees. Contributions to this plan are not included in the Company's pension benefit plans described below.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the Company's pension plans for funding purposes was as of December 31, 2003. This valuation identified a going-concern deficit of $3.9 million and a solvency deficit of $5.1 million for the DB Plans. Based on the results of the valuation, commencing in 2004, the Company is required to fund annual current service costs of approximately $1.4 million, including required contributions under both the DB Plans and the DC Plan. In addition, the Company is required to fund the deficit position in the DB Plans with annual costs of approximately $1.2 million. The Company's next required valuation will be as of December 31, 2006.

For the year ended December 31, 2004, the Company recorded an expense of $3.2 million for pension benefit costs (2003 — $3.7 million) and made cash payments of $2.8 million to fund current and future service costs (2003 — $0.8 million), including $0.2 million (2003 — nil) for required contributions under the DB Plans, $0.9 million (2003 — nil) to fund the deficit in the DB Plans, $0.8 million (2003 — $0.8 million) for benefit payments relating to unfunded DB Plans, and $0.9 million (2003 — nil) for required contributions under the DC Plan. Under the provisions of the Company's pension plans, current service contributions to both the DB Plans and DC Plan can be funded by an actuarial surplus in the DB Plans. For the year ended December 31, 2003, the Company's required contributions of $0.7 million under the DB Plans and its required contributions of $1.1 million under the DC Plan were both funded from an actuarial surplus determined in the DB Plans as at December 31, 2000.

The Company also provides non-pension benefits consisting of group life insurance and medical benefits to eligible retired employees, which the Company funds on an as-incurred basis. For the year ended December 31, 2004, the Company recorded an expense of $3.5 million for non-pension benefit costs (2003 — $3.4 million) and made cash payments of $1.8 million to fund current benefit costs (2003 — $1.8 million).

In millions of dollars, except per common share and per Stapled Unit amounts

14. Employee benefits *(continued)*

Information about the Company's defined benefit plans other than the multi-employer defined benefit plan, in aggregate, is as follows:

	Pension benefit plans		Post-retirement benefit plans	
	2004	2003	2004	2003
Change in fair value of plan assets during the year:				
Fair value of plan assets, beginning of year	$ 86.2	$ 86.0	$ –	$ –
Use of surplus for defined contribution segment service cost	–	(1.1)	–	–
Actual return on plan assets	12.3	10.1	–	–
Employer contributions	2.2	0.8	1.8	1.8
Benefits paid	(9.9)	(9.6)	(1.8)	(1.8)
Fair value of plan assets, end of year	$ 90.8	$ 86.2	$ –	$ –
Change in accrued benefit obligation during the year:				
Accrued benefit obligation, beginning of year	$ 103.8	$ 102.0	$ 39.9	$ 31.7
Current service cost	0.4	0.7	0.7	0.5
Interest cost	5.9	6.4	2.2	2.3
Benefits paid	(9.9)	(9.6)	(1.8)	(1.8)
Net actuarial (gain) loss	(0.3)	4.3	(3.5)	7.2
Accrued benefit obligation, end of year	$ 99.9	$ 103.8	$ 37.5	$ 39.9
Reconciliation of funded status:				
Excess of accrued benefit obligation over plan assets	$ (9.1)	$ (17.6)	$ (37.5)	$ (39.9)
Unamortized net actuarial loss	15.2	22.3	10.4	14.6
Unamortized past service costs	1.3	2.7	–	–
Net asset (accrued liability) at December 31	$ 7.4	$ 7.4	$ (27.1)	$ (25.3)
Amounts recognized in the Consolidated Balance Sheets consist of:				
Other assets	$ 7.4	$ 7.4	$ –	$ –
Non-pension post-retirement benefits	–	–	(27.1)	(25.3)
Net amount recognized at December 31	$ 7.4	$ 7.4	$ (27.1)	$ (25.3)

The assets of the pension plans are held by independent trustees and are accounted for separately in the Company's pension funds. Based on the fair value of assets held at December 31, 2004, the plan assets were comprised of 10% invested in income trusts, 25% in equities and 65% in bonds. Equity securities held in the plans do not include any of the Company's Stapled Units.

In millions of dollars, except per common share and per Stapled Unit amounts

14. Employee benefits *(continued)*

The accrued benefit obligations in excess of fair value of plan assets at year-end with respect to pension benefit plans that are not fully funded are as follows:

	Pension benefit plans		Post-retirement benefit plans	
	2004	2003	2004	2003
Fair value of plan assets	$ –	$ –	$ –	$ –
Accrued benefit obligation	(10.6)	(10.8)	(37.5)	(39.9)
Plan deficit	$ (10.6)	$ (10.8)	$ (37.5)	$ (39.9)

The Company's net benefit plan expense recognized in the year is as follows:

	Pension benefit plans		Post-retirement benefit plans	
	2004	2003	2004	2003
Current service cost — DB Plans	$ 0.4	$ 0.7	$ 0.7	$ 0.5
Interest cost	5.9	6.4	2.2	2.3
Expected return on plan assets	(6.2)	(6.5)	–	–
Amortization of past service costs	1.4	1.3		–
Amortization of experience loss	0.7	0.7	0.6	0.6
	2.2	2.6	3.5	3.4
Current service cost — DC Plan	1.0	1.1		–
Expense recognized in the year	3.2	$ 3.7	$ 3.5	$ 3.4

The cost of pension and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health-care costs. Actuarial gains or losses arise from changes in benefit obligation assumptions and the difference between the expected and actual investment performance.

The following table shows the difference between the net benefit plan expense recognized in the year based on amortization of both actuarial gains or losses and the difference between expected and actual investment performance, and the Company's net benefit plan (recovery) expense incurred in the year computed without amortization of these amounts:

	Pension benefit plans		Post-retirement benefit plans	
	2004	2003	2004	2003
Expense recognized in the year	$ 3.2	$ 3.7	$ 3.5	$ 3.4
Difference between expected and actual return on plan assets	(6.2)	(3.6)	–	–
Difference between net actuarial gains amortized and net actuarial gains arising	(1.0)	3.6	(4.1)	6.6
Difference between past service costs amortized and past service costs arising	(1.3)	(1.3)		–
(Recovery) expense incurred in the year	$ (5.3)	$ 2.4	$ (0.6)	$ 10.0

In millions of dollars, except per common share and per Stapled Unit amounts

14. Employee benefits *(continued)*

Weighted average significant assumptions:

	Pension benefit plans		Post-retirement benefit plans	
	2004	2003	2004	2003
Accrued benefit obligations:				
Discount rate	6.0%	6.0%	6.0%	6.0%
Rate of increase in future compensation	3.5%	3.5%	–	–
Net benefit expense:				
Discount rate	6.0%	6.0%	6.0%	6.0%
Assumed long-term rate of return on plan assets	7.5%	7.5%	–	–
Rate of increase in future compensation	3.5%	3.5%	–	–
Assumed health-care cost trend rate at end of year:				
Initial health-care cost trend	–	–	6.9%	5.5%
Annual rate of decline in trend rate	–	–	0.3%	0.5%
Ultimate health-care cost trend rate	–	–	4.2%	5.0%

2004 sensitivity of significant assumptions:

	Change in obligation	Change in expense
Effect of 1% increase in health-care cost trend rates	$ 5.2	$ 0.8
Effect of 1% decrease in health-care cost trend rates	$ (4.3)	$ (0.6)

In order to retain and encourage the continuing service of its officers and key employees, the Company has entered into agreements with its officers and key employees providing a supplement to the severance entitlements to which these officers are entitled under their regular employment arrangements if employment is terminated without cause within 24 months following a change of control of the Company, as defined in the agreements.

15. Stapled Units

(a) Authorized share capital:

10,069,608,359 common shares without par value
1,600,000 class A preferred shares with a par value of $1.00 each
5,000,000,000 class B preferred shares without par value, of which the following have been designated in series:
- 32,500,000 series A preferred shares
- 16,000,000 series B preferred shares
- 1,539,000 series C preferred shares
- 65,840,000 series D preferred shares

10,000,000,000 preferred shares with a par value of $0.024456 each

(b) Stapled Units:

The Company issues equity by way of Stapled Units, each Stapled Unit consisting of approximately $8.98 face amount of Series A Subordinate Notes, 100 preferred shares and one common share. The securities comprising a Stapled Unit trade together as Stapled Units and cannot be transferred except with each other as part of a Stapled Unit until the date of maturity of the Series A Subordinate Notes or the payment of the principal amount of the Series A Subordinate Notes following an event of default and expiration of a remedies blockage period.

In millions of dollars, except per common share and per Stapled Unit amounts

15. Stapled Units *(continued)*

(b) Stapled Units: *(continued)*

During the year ended December 31, 2004, the Company issued 660,895 Stapled Units (2003 — 53,334 Stapled Units) on the exercise of Stapled Unit options.

Details as to issued and outstanding Stapled Units are as follows:

	Number of Stapled Units	Series A Subordinate Notes	Preferred shares	Common shares	Issue costs	Excess (shortfall) of stated value of Stapled Units over purchase/ issue price	Total Stapled Units
Balance, December 31, 2002	76,192,788	$ 684.1	$ 186.2	$ 30.2	$ (30.5)	$ 0.1	$ 870.1
Year ended December 31, 2003:							
Stapled Unit options exercised	53,334	0.5	0.1	–	–	(0.1)	0.5
Balance, December 31, 2003	76,246,122	684.6	186.3	30.2	(30.5)	–	870.6
Year ended December 31, 2004:							
Stapled Unit options exercised	660,895	5.9	1.6	0.2	–	–	7.7
Balance, December 31, 2004	76,907,017	$ 690.5	$ 187.9	$ 30.4	$ (30.5)	$ –	$ 878.3

Details as to each of the components of the Stapled Units are as follows:

(i) Series A Subordinate Notes (see note 2(i)):

	Number of notes	Amount
Balance, December 31, 2002	76,192,788	$ 684.1
Year ended December 31, 2003:		
Series A Subordinate Notes issued on exercise of Stapled Unit options	53,334	0.5
Balance, December 31, 2003	76,246,122	684.6
Year ended December 31, 2004:		
Series A Subordinate Notes issued on exercise of Stapled Unit options	660,895	5.9
Balance, December 31, 2004	76,907,017	$ 690.5

In millions of dollars, except per common share and per Stapled Unit amounts

15. Stapled Units *(continued)*

(b) Stapled Units: *(continued)*

(i) Series A Subordinate Notes (see note 2(i)): (continued)

Each Series A Subordinate Note has been issued with a face amount of $8.978806569, entitling the holder to an interest payment per unit of $1.077456788 per annum (12%).

The Series A Subordinate Notes are unsecured and subordinate to all credit facilities (see note 12) and debentures (see note 13). The principal amount of the Series A Subordinate Notes plus accrued and unpaid interest thereon are due on August 31, 2038, unless such date is extended by the Company at the time of the issuance of additional Subordinate Notes to a date not later than the earlier of: *(i)* the date of maturity of such additional Subordinate Notes; and *(ii)* August 31, 2048, and will be payable by cash or, at the option of the Company, by delivery of common shares to the Subordinate Note Trustee for the benefit of the holders of the Subordinate Notes.

(ii) Preferred shares:

	Number of shares	Amount
Balance, December 31, 2002	7,619,278,800	$ 186.2
Year ended December 31, 2003:		
Preferred shares issued on exercise of Stapled Unit options	5,333,400	0.1
Balance, December 31, 2003	7,624,612,200	186.3
Year ended December 31, 2004:		
Preferred shares issued on exercise of Stapled Unit options	66,089,500	1.6
Balance, December 31, 2004	7,690,701,700	$ 187.9

The holders of the preferred shares are entitled to the receipt of dividends as may be declared by the Board of Directors from time to time and are not entitled to any voting rights except as may be provided under the Company Act. The preferred shares may be redeemed at the option of the Company in whole at any time or in part from time to time at the par value of $0.024456 per share.

(iii) Common shares:

	Number of shares	Amount
Balance, December 31, 2002	76,192,788	$ 30.2
Year ended December 31, 2003:		
Common shares issued on exercise of Stapled Unit options	53,334	–
Balance, December 31, 2003	76,246,122	30.2
Year ended December 31, 2004:		
Common shares issued on exercise of Stapled Unit options	660,895	0.2
Balance, December 31, 2004	76,907,017	$ 30.4

In millions of dollars, except per common share and per Stapled Unit amounts

15. Stapled Units *(continued)*

(c) Class B preferred shares issuable in series:

Details as to the series of class B preferred shares issued are as follows:

	Number of shares	Amount
Series A	32,500,000	$ 325.0
Series D	62,500,000	625.0
		950.0
Class B preferred shares owned by the Company's subsidiaries		(950.0)
Balance, December 31, 2004 and 2003		$ –

16. Commitments and contingencies

(a) Operating leases:

At December 31, 2004, the Company was committed to payments under operating leases for equipment and office premises through to 2011 in the amount of approximately $15.2 million. Annual payments over the term of these commitments were as follows: 2005 — $7.8 million; 2006 — $3.7 million; 2007 — $1.6 million; 2008 — $0.9 million; 2009 — $0.6 million; and 2010 and beyond — $0.6 million.

As part of the Company's business transformation initiative (see note 20), the Company has undertaken to buy out the leases on all leased logging equipment in early 2005. This equipment will in turn be disposed of to logging contractors working for the Company. Commitments under operating leases, excluding leased logging equipment scheduled for buyout, are approximately $4.5 million. Annual payments over the term of these commitments are approximately: 2005 — $1.2 million; 2006 — $0.7 million; 2007 — $0.7 million; 2008 — $0.7 million; 2009 — $0.6 million; and 2010 and beyond — $0.6 million.

(b) Letters of credit:

At December 31, 2004, the Company had commitments of $15.9 million (2003 — $15.3 million) relating to outstanding letters of credit issued under its available credit facilities, which secure various obligations of the Company.

(c) Legal claims:

The Company is subject to legal proceedings and claims that arise in the ordinary course of its business. Although there can be no assurance as to the disposition of these matters and the proceedings, it is the opinion of the Company's management, based upon the information available at this time, that the expected outcome of these matters, individually or in aggregate, will not have a material adverse effect on the results of operations and financial condition of the Company.

In millions of dollars, except per common share and per Stapled Unit amounts

17. Stock-based compensation plans

(a) Stapled Unit Option Plan:

Under the Stapled Unit Option Plan established in 2000, the Company may grant options for the purchase of Stapled Units to directors, officers or employees who are in active service or employment with the Company or any of its subsidiaries. The maximum number of Stapled Units that may be issued pursuant to this plan and all options granted thereunder is limited to 3,500,000 Stapled Units. The expiry date and vesting provisions of options granted are established at the time an award is made. Options must expire within 10 years of the date of grant and options granted generally vest in equal proportions over a period of three years. The exercise price of grants awarded may not be less than the weighted average trading price of the Stapled Units on the Toronto Stock Exchange over the five consecutive trading days immediately before the date of grant.

Activity in the Company's Stapled Unit Option Plan for fiscal 2004 and 2003 was as follows:

	2004		2003	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of year	1,518,733	$ 11.87	1,314,387	$ 11.75
Granted	313,220	12.21	267,047	11.90
Exercised	(660,895)	11.64	(53,334)	8.91
Cancelled	(10,260)	12.08	(9,367)	12.95
Expired	(3,220)	11.90	–	–
Options outstanding, end of year	1,157,578	$ 12.09	1,518,733	$ 11.87

A summary of Stapled Unit options outstanding at December 31, 2004, is as follows:

Total outstanding				Total exercisable	
Number of options	Exercise price	Weighted average exercise price	Weighted average years to expiration	Number of options	Weighted average exercise price
120,000	$ 8.91	$ 8.91	5.2	120,000	$ 8.91
11,000	11.67	11.67	1.8	11,000	11.67
246,861	11.90	11.90	3.1	76,870	11.90
307,220	12.21	12.21	4.2	–	–
2,580	12.28	12.28	3.2	860	12.28
76,000	12.72	12.72	1.9	76,000	12.72
6,000	12.79	12.79	2.7	4,000	12.79
120,600	12.84	12.84	1.9	120,600	12.84
5,000	12.87	12.87	2.1	–	–
232,650	13.03	13.03	2.0	232,650	13.03
9,000	13.13	13.13	2.3	6,000	13.13
12,500	13.14	13.14	2.4	8,333	13.14
8,167	13.41	13.41	2.4	3,933	13.41
1,157,578	$ 8.91 – $13.41	$ 12.09	3.1	660,246	$ 12.06

In millions of dollars, except per common share and per Stapled Unit amounts

17. Stock-based compensation plans *(continued)*

(a) Stapled Unit Option Plan: *(continued)*

Prior to January 1, 2003, the Company's policy was that no compensation cost was recorded on stock-based compensation awards granted to employees under this plan. Effective January 1, 2003, the Company changed its policy of accounting for awards under this plan and now applies the fair value–based method of accounting for all stock-based compensation transactions.

The Company made this change in accounting policy on a prospective basis and accordingly has not applied the fair value–based method of accounting to Stapled Unit options granted between January 1, 2002, and December 31, 2002. The compensation cost for the 55,200 Stapled Unit options granted under the Stapled Unit Option Plan in 2002, determined based on their fair value at the grant date of the awards, consistent with the fair value method of accounting for stock-based compensation, is $0.1 million. As this amount would be amortized against income over the three-year vesting period of the underlying options, the Company's pro forma net earnings and pro forma earnings per common share if this amount was expensed would not differ from the amounts reported for the years ended December 31, 2004 and 2003.

The compensation cost for the 313,220 Stapled Unit options granted under the Stapled Unit Option Plan in 2004, determined using the fair value method of accounting for stock-based compensation, is $0.3 million. As this amount is amortized against income over the three-year vesting period of the underlying options, a charge of $0.1 million was recognized in net earnings for the year ended December 31, 2004, with a corresponding credit to contributed surplus.

The compensation cost for the 267,047 Stapled Unit options granted under the Stapled Unit Option Plan in 2003, determined based on their fair value at the grant date of the awards, consistent with the fair value method of accounting for stock-based compensation, was $0.3 million. As this amount is amortized against income over the three-year vesting period of the underlying options, a charge of $0.1 million was recognized in net earnings for the year ended December 31, 2004 (2003 — $0.1 million), with a corresponding credit to contributed surplus.

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model based on the following weighted average assumptions:

	2004	2003
Risk-free interest rate	3.5%	4.3%
Expected life (years)	5.0	5.0
Expected volatility	20.6%	25.3%
Dividend yield	8.6%	9.1%
Number of options granted	313,220	267,047
Weighted average fair value of options granted	$ 0.86	$ 1.07

Consideration paid by option holders on the exercise of these options is recorded as an addition to Stapled Units.

(b) Distribution Equivalent Plan:

The Distribution Equivalent Plan was introduced as a supplement to the Stapled Unit Option Plan in 2001. Under this supplemental plan, the Company awards Stapled Unit option holders an amount equal to actual distributions paid on the Company's Stapled Units. Awards granted under the Distribution Equivalent Plan vest under the same terms that apply to the corresponding options and can only be exercised at the time of exercise of the corresponding options.

The Company applies the principles of the fair value–based method of accounting for stock-based compensation to awards granted under this plan. Awards are accrued on a basis equal to actual distributions paid on the Company's issued and outstanding Stapled Units and are charged to income as the underlying Stapled Unit options vest. For the year ended December 31, 2004, $1.3 million (2003 — $1.2 million) has been accrued for awards granted under this plan and $1.3 million (2003 — $1.1 million) has been amortized against net earnings.

In millions of dollars, except per common share and per Stapled Unit amounts

18. Segment information

The Company has one reportable segment, being solid wood, identified based on the way that management organizes its business for making operating decisions and assessing performance. All of the Company's assets are located in British Columbia, Canada.

Sales by product are as follows:

	2004	2003
Logs	$ 337.6	$ 340.1
Lumber	106.2	73.6
Wood chips and other	22.4	22.8
Real estate	10.8	8.9
	$ 477.0	$ 445.4

Sales by geographic area are as follows:

	2004	2003
Canada	$ 225.6	$ 214.5
Japan	160.6	138.2
United States	56.0	60.5
Belgium	10.5	8.9
China	10.2	8.7
Korea	6.0	6.0
Taiwan	4.6	3.5
Australia	3.5	5.1
	$ 477.0	$ 445.4

Revenues are attributed to geographic area based on final shipping destination.

In 2004, the Company had sales to one customer whose individual sales accounted for approximately 12% of the Company's consolidated sales. In 2003, the Company had no customers whose individual sales accounted for 10% or more of the Company's consolidated sales.

19. Financial instruments

(a) Fair values:

The carrying values of accounts receivable, accounts payable and accrued liabilities and distribution payable approximate their fair values due to the short term to maturity of these instruments.

The carrying value of the receivable on sale of property, plant and equipment included in other assets (see note 11) is estimated to approximate its fair value due to its short term to maturity.

The carrying values of drawings on available credit facilities approximate their fair values, as they bear floating interest rates that approximate market rates and have a short term to maturity.

The carrying value of accrued liabilities for future silviculture costs approximate their fair value as determined based on the present value of future cash flows associated with these liabilities.

At December 31, 2004, the Company's 7.0% debentures had a carrying value of $195.0 million (2003 — $195.0 million) and a fair value of $206.8 million (2003 — $200.6 million). The debenture fair values have been estimated based on quotes provided by financial institutions as at December 31, 2004 and 2003.

(b) Credit risk:

The Company is exposed to credit risk on accounts receivable from customers. To manage its credit risk, the Company has credit policies that include the analysis of the financial position of its customers and the regular review of their credit limits. In certain offshore markets, the Company requires bank letters of credit.

20. Business transformation

In the second quarter of 2004, the Company announced a plan to transform its business model through a restructuring of the Company's log harvesting operations and a move to contract all logging activities. Historically, 50% of the Company's log harvesting was performed by contractors. Under the transformation plan, the Company has contracted the remainder of its harvesting and road building activities to unionized contractors on a competitive-bid basis, effective January 1, 2005.

Operating earnings for the year ended December 31, 2004, reflect an expense of $4.6 million in cost of sales for costs relating to this restructuring.

21. Comparative figures

Certain comparative figures have been reclassified to conform to the current year presentation.

Executive Management Team & Board of Directors

Executive Management Team

Paul J. McElligott
President and Chief Executive Officer
North Vancouver, British Columbia

Virginia Aulin
Vice-President, Public Affairs
and Government Relations
Vancouver, British Columbia

John Kelvin
Vice-President, Log Marketing and Sales
North Vancouver, British Columbia

Hamish Kerr
Vice-President, Strategic Planning
and Forest Policy
West Vancouver, British Columbia

John Mann
Vice-President, Timberland Operations
Nanaimo, British Columbia

Beverlee Park
Vice-President, Finance,
and Chief Financial Officer
West Vancouver, British Columbia

Mark Stock
Vice-President, Human Resources
and Information Technology
North Vancouver, British Columbia

Ed Vervynck
General Manager, Manufacturing
Salmon Arm, British Columbia

Gerry Young
Assistant Vice-President,
Timberland Operations
Courtenay, British Columbia

Board of Directors

V. Edward Daughney [1, 2]
Chairman, TimberWest Forest Corp.,
and Principal and Chairman,
Echelon Home Products Ltd.
Vancouver, British Columbia
Director since 1997

William C. Brown [1, 3]
Corporate Director
Bowen Island, British Columbia
Director since 1997

Paul J. McElligott
President and Chief Executive Officer,
TimberWest Forest Corp.
North Vancouver, British Columbia
Director since 1997

Robert W. Murdoch [1, 2, 4]
Corporate Director
Salt Spring Island, British Columbia
Director since 2001

Anthony J. Petrina [2, 3]
Corporate Director
Vancouver, British Columbia
Director since 1997

Conrad A. Pinette [1, 3]
Executive Vice-President,
Riverside Forest Products Ltd.
Vancouver, British Columbia
Director since 2002

Kenneth A. Shields [2, 4]
Chairman and Chief Executive Officer,
Raymond James Ltd.
Vancouver, British Columbia
Director since 1997

Committees of the Board

1 Audit
2 Governance & Human Resources
3 Environment, Health & Safety
4 Pension

For full descriptions of the Board committees, please see TimberWest's Information Circular.

Bios for members of the Executive Management Team and Board of Directors are available on TimberWest's web site at:
www.timberwest.com/compinfo_directors.cfm

TimberWest Offices & Operations

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Lumbermill
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No. 1 Quality Dr.
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Campbell River, BC V9W 8A3
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Stuart Channel Wharves
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Telephone: 250-246-3234

Transfer Agent & Registrar
Computershare Trust Company of Canada at its principal offices in Vancouver and Toronto

Auditors
KPMG LLP
Vancouver, BC

Securities Listed
Stapled Units
(Symbol: TWF.UN)
Toronto Stock Exchange

Investor Relations Contact
Bev Park, Vice-President, Finance, and Chief Financial Officer
Telephone: 604-654-4600
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E-mail: bev_park@timberwest.com

2005 Annual General Meeting

Thursday, April 28, 2005, at 2:30 pm (PST)

The Annual General Meeting of the "Unitholders" of Stapled Units of TimberWest Forest Corp. will be held at The Grand Hotel Nanaimo, 4898 Rutherford Rd., Nanaimo, BC, Canada V9T 4Z4.
Tel: 250-758-3000 • Fax: 250-729-2808 • E-mail: info@thegrandhotelnanaimo.ca

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